

FOREIGN AFFAIRS



Spring 1986

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New buzzword, old philosophy

The "mixed economy," that marriage of public and private enterprise so widely hailed in the 1960s, has lost some of its pizzazz these days. The buzzword of the '80s is privatization, and it's firing the imagination of countries the world over—capitalist, Socialist and Communist alike.

In Europe, for example, the British government has sold more than a dozen state-owned companies—some of the giants of its aerospace, communications, energy, tourism and trucking industries—and shifted more than 400,000 workers from public to private payrolls. Similar moves are taking place in France, Germany, Italy, Spain and Sweden.

In Asia, Japan is divesting the government railway, airline and telephone systems. South Korea is selling off banks and heavy industry. Less developed nations like Bangladesh and Pakistan are returning nationalized jute, textile, rice and flour mills to their former owners.

The economic momentum has even spread to the Communist world. The Cuban government is selling state-owned houses to tenants. More than 10 million self-employed capitalists operate restaurants, street stalls, repair shops and other small enterprises in China. And in rural areas, farmers are prospering by selling surplus produce in the cities, and keeping the proceeds. Entrepreneurs in Hungary bid for the right to run their own businesses, and the system is catching on in other Eastern European nations.

Why the interest in privatization? Mostly because it works. Especially in the Communist lands, the privatization process has

tended to raise the standard of living.

Not surprisingly, privatization is becoming popular in America, too. Prompted by the need to cut the deficit, the Reagan administration is seeking to cut costs by turning over to private operators such traditional loss leaders as Amtrak and the Federal Housing Administration, which insures private mortgages. Other possible initiatives: selling airport landing slots to individual carriers, for example, or letting private companies sort and deliver first-class mail.

Actually, in this country municipal governments have gotten the jump on the feds—contracting out for everything from hospital care to airport management. The town of La Mirada, California, has been one of the leaders, using the private sector for almost all key services—including police and fire protection, social welfare and public works. Phoenix, Arizona, has saved millions of dollars by having its municipal agencies bid against outside companies for city contracts. A money-losing teaching hospital that the city of Louisville, Kentucky, turned over to a private company in 1983 is not only making money now but also providing better patient care.

Privatization, in short, has meant more efficiency and lower costs—and, usually, better service. And if it involves the sale of an asset, the government gets a whopping one-time capital gain as well. So why has privatization been so long in coming? Fact is, it's been around for some time. Privatization is just a modern-day buzzword for an old, old philosophy. Adam Smith called it the free market. We call it a pretty good deal all around.

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A-3

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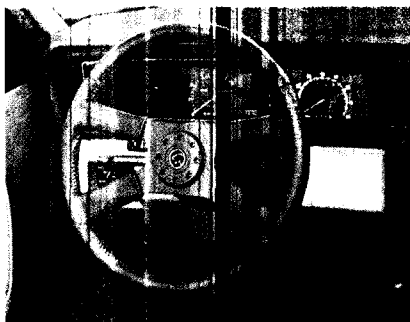
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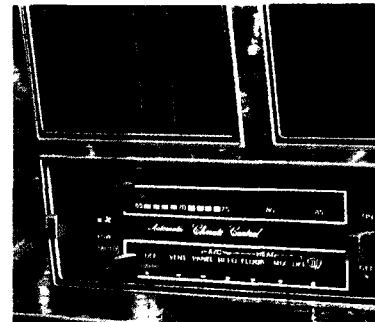
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Medical Research— building a healthier future

If you've ever been treated for high blood pressure... heart disease... diabetes... or almost any health problem, medical progress based on research has already touched your life.

Because of medical research, polio no longer strikes in epidemic proportions every summer. Today about three-quarters of patients diagnosed as having Hodgkin's disease will survive five years or longer—as opposed to less than half twenty years ago. Current treatment options for people with heart disease and high blood pressure include medication that helps the body's natural regulators to control blood pressure and volume, enabling the heart to function with less strain.

Scientists are now working on new ways of treating such devastating afflictions as heart disease, cancer and Alzheimer's disease. They are testing new enzyme inhibitors that may control or reverse the late complications of diabetes. Forthcoming breakthroughs in understanding biological processes and treating disease may change the quality and perhaps the length of your life.

Medical research leading to such results takes years of patient, often frustrating experimentation by many different teams throughout the public and private sectors of our scientific community. The tasks involved are not simple.

Advances in research stem from a partnership that includes federal agencies such as the National Institutes of Health (NIH), universities and teaching hospitals across America, and private industry laboratories. Each partner often works independently to acquire knowledge and test new concepts. They must build on the knowledge developed in all laboratories, and they often coordinate efforts in their search for answers.

Whether an idea originates in a university laboratory or starts with basic product research carried on in the private sector, important findings percolate through the entire scientific community, where each new finding serves as a building block to establish a deeper under-

standing of what we are and how we function.

Medical research is an expensive process. It needs steady funding for equipment and personnel—even when progress is slow. Government and industry often work with university-based scientists and the medical profession not only in the acquisition of new knowledge and the development of new treatments, but also in funding these advances.

Now more than ever, we all must do our part to help keep the flow of discoveries active and ongoing. If funding for medical research is reduced, major advances in knowledge about some of the most dreaded diseases facing us today could be delayed for years to come.

What can you do?

- *Speak up.* Let your legislators know that you want funding of biomedical research by NIH and other government agencies to be kept at the highest possible levels.
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Caspar W. Weinberger

U.S. DEFENSE STRATEGY

The Reagan Administration took office in 1981 committed to rebuilding American military power. We are encouraged by the results of the past four years. The Reagan defense program is having its intended effect on the Soviet Union.

The sequence of annual Soviet aggression against new targets that began in the mid-1970s in Angola, and culminated in the invasion of Afghanistan in late 1979, has ceased. After walking out of the Geneva negotiations in protest over NATO's deployment of theater nuclear weapons in November 1983, the Soviet delegation is back at the bargaining table. Just prior to the recent meeting between President Reagan and General Secretary Mikhail Gorbachev, the Soviets began for the first time to talk seriously about deep cuts in strategic offensive forces. Indeed, the Soviet Union now appears to be moving toward President Reagan's "zero option" proposal for eliminating land-based intermediate range nuclear forces—a proposal that was dismissed in 1981 by most American arms control advocates as a propaganda ploy.

In 1980 the crucial issue was whether the United States could afford to acquiesce in the Soviet Union's attempt to achieve a position of global military superiority. The answer from the American electorate was clear. We agreed to pay the price for military strength to deter war.

My purpose in this article is not to review all of the programs and policies of this Administration. Rather, I want to describe U.S. defense strategies and to summarize the major changes we have made in our thinking at the Department of Defense over the past five years.

II

When the Reagan Administration entered office in 1981 it inherited strategic concepts formulated more than a quarter-century ago. Consider the list: nuclear deterrence, extended deterrence, escalation control, strategic stability, offensive dominance, counterinsurgency, limited war, and escalation lad-

Caspar W. Weinberger is Secretary of Defense.

ders. The dominant features of the 1950s, when most of these ideas were first formulated and applied, can be summarized in two phrases: American nuclear preeminence and American military superiority. In the nuclear arena we had a decisive advantage. Across the board in military forces we invested more than the Soviets and had a margin of superiority in most military dimensions.

That era has vanished. The Soviet Union has become a military superpower through an effort that has consumed more than twice as large a percentage of its gross national product as U.S. defense spending does. Whether the United States should be willing to accept a position of parity in military power with the Soviet Union over the longer run can (and should) be debated. But about our current defense programs there should be no illusions. We are not trying to regain the earlier margin of advantage. Rather, we are struggling to win the resources necessary to enable us to maintain sufficient military strength to ensure deterrence.

What does this transformation of the military balance between the United States and the Soviet Union imply for the relevance of our basic strategic concepts? Should ideas formulated in an era of American military predominance apply with equal validity in an era of parity?

The world has changed profoundly since the 1950s and early 1960s, when most of our conceptual arsenal was formulated—so profoundly that some of these concepts are now obsolete. Thus, as we reaffirm the central concepts of postwar American policy, we are reformulating others and reaching out for new ideas in a search for ways to make our deterrent more effective. In 1981 we could not delay rebuilding American military strength while we conducted a lengthy conceptual debate. There could be but one overriding priority: to reestablish the balance of military power necessary for stable deterrence. But even as we moved decisively to restore military parity with the Soviet Union, we also began to reassess those strategic concepts inherited from past policymakers.

Now, five years later, I believe we have made significant progress both in strengthening our military forces and in modernizing our defense strategy and policy. Neither task is complete. But as we address the agenda for the remaining years of the Reagan Administration, it should be useful to state succinctly the core of our defense strategy.

Our strategy is simple. We seek to prevent war by maintain-

ing forces and demonstrating the determination to use them, if necessary, in ways that will persuade our adversaries that the cost of any attack on our vital interests will exceed the benefits they could hope to gain. The label for this strategy is deterrence. It is the core of our defense strategy today, as it has been for most of the postwar period. Moreover, this strategy is working. It has succeeded in winning for the United States and our allies four decades of peace with our primary adversary—a period nearly twice as long as the time-span between World War I and World War II.

To be effective, deterrence must continue to meet four tests:

Survivability: our forces must be able to survive a preemptive attack with sufficient retaliatory strength to threaten losses that outweigh gains. *Credibility*: our threatened response to an attack must be of a form that the potential aggressor believes we could and would carry out. *Clarity*: the action to be deterred must be sufficiently clear to our adversaries so that the potential aggressor knows what is prohibited. *Safety*: the risk of failure through accident, unauthorized use, or miscalculation must be minimized.

Beyond these aims, a more complex concept of deterrence places a greater emphasis on three interrelated ideas. First, effective deterrence must address not just the objective facts of the military balance sheet, but also Soviet leaders' *perceptions* of those facts. It is not sufficient for us to believe that the costs we will impose in response to an attack will exceed the benefits the Soviet leadership hopes to achieve. Interpreting the facts within their own framework, the Soviet leaders must conclude *they* cannot advance *their* objectives by attacking us.

Recognition that an adversary's perceptions are an essential dimension of deterrence is not a new idea. As the Scowcroft Commission's report stated: "Deterrence is the set of beliefs in the minds of the Soviet leaders, given their own values and attitudes, about our capabilities and our will. It requires us to determine, as best we can, what would deter them from considering aggression, even in a crisis—not to determine what would deter us."¹

Because of our relative ignorance of Soviet perceptions, U.S. planners tend to rely on their own calculations. But all the evidence we have suggests that preparing to deter an attack only by assembling forces adequate to deter us under similar

¹ *Report of the President's Commission on Strategic Forces*, April 1983, p. 3.

conditions could provide too little to deter the Soviets. For example, many strategic analysts have opposed this Administration's modernization of strategic nuclear forces with the argument that such investments are "sterile," since the marginal gain in attack and retaliation calculations is relatively small for the level of investment. The issue for a strategy of deterrence that takes perceptions seriously, however, is whether the Soviet leadership shares the judgment that additional expenditures are pointless. The fact that for the past decade Soviet investment in strategic forces (as measured in dollars) has been two to three times the size of our own investment would suggest that they do not share this judgment. Moreover, our forces must be adequate not only to deter Soviet aggression, but also to be seen by our allies as sufficient.

The *second* element is risk, the key issue in defense planning. Unfortunately, many discussions of deterrence are led astray by a misunderstanding of this concept. For example, consider the argument that because our current capabilities are insufficient to meet all our commitments, we must cut back our commitments. Our commitments are based on our interests. We can never afford to buy the capabilities sufficient to meet all of our commitments with one hundred percent confidence. The critical questions are: What risk of failure are we prepared to accept in our plans for meeting particular contingencies? How much are we prepared to pay to reduce this risk?

The *third* point is that deterrence is a multilayered concept. The way in which we persuade the Soviet leaders that the costs of an attack would exceed any benefits they might hope to achieve includes three layered components: defense, escalation and retaliation.

If the adversary calculates that his aggression is likely to fail in its own terms, he will not attack. Further, he must know that even if his aggression should succeed in achieving its immediate objectives, he faces the threat of escalation to hostilities that would exact a higher cost than he is willing to pay. In addition to defense and escalation, the third layer is retaliation: if the adversary confronts a credible threat that aggression will trigger attacks by a surviving U.S. retaliatory capability against the attacker's vital interests that result in losses exceeding any possible gains, he will not attack.

Of these three layers of deterrence, the safest and most reassuring is defense. Our "warfighting" capability to defeat an attack and restore the peace is therefore not something

separate from our strategy of deterrence. In fact, it forms the foundation of effective deterrence. If an adversary believes that his attack could be defeated at a low level of violence, and at low risk, why would he attack? We understand that the costs of maintaining the capability to meet every contingency effectively on its own terms can be prohibitive. Thus the United States must maintain a credible threat both of escalation and of retaliation to secure deterrence across the spectrum of potential conflict.

The Reagan Administration has reaffirmed the basic U.S. defense strategy of deterrence. In challenging ourselves, our colleagues in the Administration, and the broader strategic community to reassess the conceptual arsenal of the 1960s and reach out for new ideas, our aim is to find ways to make this strategy of deterrence more effective. Our principal difference with our immediate predecessor arose from our judgment that it was urgent to fund defense at levels adequate to restore our neglected military so that we could maintain deterrence and to do so as quickly as possible. We have accomplished a great deal, but we still confront major Soviet advantages in capital assets purchased since the 1970s and a continuing Soviet military buildup. In light of U.S. congressional demands that deficit reduction be given highest priority, maintaining forces adequate for the missions essential to our vital interests remains our largest challenge.

To the basic defense policies that have guided defense planning since the 1950s, the Reagan Administration has made a number of revisions and additions. We have added four pillars of defense policy for the 1990s that attempt to address the most important changes in the strategic environment that have occurred since the 1960s. These four pillars are: the Strategic Defense Initiative and secure nuclear deterrence; uses of military force and secure conventional deterrence; a strategy for reducing and controlling arms; and competitive strategies.

In the sections that follow I will discuss each policy.

III

The President's Strategic Defense Initiative (SDI) stunned many traditional thinkers because, as so often is the case with the President's proposals, it flew in the face of conventional wisdom. In fact, strategic defense represents a change of strategy, but it is motivated by the search for a more secure deterrent. It offers a far safer way to keep the peace.

Critics of strategic defense are, in most cases, proponents of the concept of mutual assured destruction (MAD). This concept describes a condition in which, after suffering an all-out nuclear first strike, either superpower would retain the nuclear capability to retaliate and destroy its opponent as a modern society. It is a mutual suicide pact. Currently, both the United States and the Soviet Union have the capacity to destroy each other. And according to advocates of MAD, this mutual suicide pact is the bedrock of strategic stability. Because each has the capability to destroy the other's society, it is argued, neither can contemplate war, and war is therefore deterred. Indeed, some proponents of MAD advocate actions to make nuclear war as horrible as possible, since that makes it as unthinkable as possible. Many oppose any defense, from civil defense to strategic defense. Some even attempt to rewrite the history of U.S. policy to claim that the United States embraced MAD and based its deterrent in the 1960s and early 1970s on retaliating against Soviet cities. This, of course, was never the case, and for good reason.

This MAD logic ignores three fundamental questions. First, is a strategy that amounts to a suicidal response sufficiently credible to deter *all* Soviet attacks? Second, what form of retaliatory threat would be the most moral and effective deterrent? And third, while secure retaliatory deterrence is necessary today, can we not move to a safer world in the future?

Is a nuclear deterrent that simply threatens the end of modern society credible? If the Soviet leadership believed that in response to a nuclear attack by them, we would be forced to choose between suicide and surrender, might they not conclude that we would decide not respond to an attack at all? Would deterrence not be gravely weakened? To avoid that dilemma, every president and every secretary of defense since the early 1960s has said we should maintain the capability to respond to a range of possible Soviet attacks with a range of appropriate options. Our Administration has accelerated the development of more selective, discriminate and controlled responses, and, most important, has sought and been voted much of the resources to accomplish this. Such limited options both pose a more credible threat to meet any level of Soviet attack, and increase the likelihood that escalation could be controlled and collateral damage minimized.

Misguided critics have sometimes confused our efforts to create credible response options for the purpose of deterring

Soviet aggression with a malign intention to fight limited nuclear wars. Some have even gone so far as to confuse prudent planning for deterrence with insensitivity to the horrors of nuclear war. This is nonsense—springing from either ignorance of our policies, or a desire to search for any means to attack our policies. No one who has received as many briefings on nuclear weapons or participated in crisis exercises as I have could hold any doubts about the absolute necessity of avoiding nuclear war. It is precisely because of this necessity that the United States must have a secure deterrent. Moreover, developing selective, discriminate responses is manifestly moral.

It is not in our interest to inform the Soviets precisely how we would respond to every possible contingency. Nor is it possible to be certain that our efforts to limit escalation and terminate a conflict once begun would succeed. But it is imperative that we take every step possible both to deter war and to limit the destruction of any conflict. Without these credible limited options, our critics' view that any response to a Soviet attack would automatically lead to mutual suicide could become a tragic self-fulfilling prophecy. In short, while our policy cannot guarantee success, our critics' policy can only guarantee failure.

The knowledge that any conflict between the United States and the Soviet Union might escalate to nuclear catastrophe is certainly part of deterrence today. But that knowledge also impels us to ask whether there is not a better way to provide for the defense of the West. Because nuclear deterrence is necessary today, we must seek to make it secure; yet because it poses dangers, we must seek better alternatives for the future. The President and I believe that the answer lies in the Strategic Defense Initiative.

We hope that strategic defense will eventually render nuclear missiles obsolete. That is our long-range vision. But we have already rendered obsolete one of the concepts of the MAD logic: the belief that deterrence must rest on the threat to destroy a certain high percentage of the Soviet population. We do not, in fact, plan our retaliatory options to maximize Soviet casualties or to attack deliberately the Soviet population. Indeed, we believe such a doctrine would be neither moral nor prudent.

It is not moral because the Soviet people should not deliberately be made the victims of any U.S. retaliation to an attack launched by the Soviet leadership—a leadership for which the Soviet people are not responsible and cannot control. It is not

prudent because secure deterrence should be based on the threat to destroy what the Soviet leadership values most highly: namely, itself, its military power and political control capabilities, and its industrial ability to wage war.

The U.S. government knows that a nuclear war cannot be won. Our nuclear doctrine is designed to ensure that the Soviet Union's leadership cannot escape this same conclusion: that a nuclear war can never be won—however they choose to define victory—and therefore must never be fought.

IV

It seems to me there are three irrefutable arguments for President Reagan's SDI—any one of which would be sufficient for the research program we have undertaken, and all three of which are, in fact, valid. They can be summarized as: Soviet breakthrough, Soviet breakout and the very real possibility that American science and technology will achieve what appears to some to be an impossible dream. Let me say more about each.

Since the Anti-Ballistic Missile Treaty of 1972, the Soviet Union has spent as much on strategic defense as on its extraordinary strategic nuclear offensive buildup. Soviet air defenses now include nearly 12,000 launchers for surface-to-air missiles, and a formidable array of radars and interceptors. The Soviet Union has exploited the one ABM system permitted by the ABM treaty—the system around Moscow—to upgrade, test and gain experience in the operation of an effective full-scale defense against ballistic missiles. Moreover, for more than two decades, the Soviets have been investing heavily in precisely those technologies encompassed by our own SDI program. While the Congress funded only 74 percent of our FY 1986 budget request for SDI research, the Soviet Union continued to spend ten times our level of effort on strategic defense.

Evidence of the Soviet program leads us to conclude that the Soviet leaders have never accepted the theory of mutual assured vulnerability so favored by many American strategists, a theory that served as the foundation of the ABM treaty. Indeed, the Soviet leaders have made a vigorous, sustained effort to reduce the vulnerability of their country, and especially of themselves. Not only are the Soviets ahead of us today in the development and deployment of strategic defenses, but they have invested so much more on these technologies, and in so many different areas, that our SDI research program would be

justified as a prudent hedge against a Soviet breakthrough—even if that were the only consideration.

Concern about a Soviet breakout follows directly from this. The Soviet commitment to strategic defense is so unswerving that we must consider the possibility of a real Soviet breakout from the ABM treaty. If they could deploy today a strategic defense that significantly advanced their interests, who doubts that they would do so, despite the treaty and their criticism of our program? What prevents the Soviets from abrogating the ABM treaty is their calculation of what each of us would do in its absence. A vigorous American strategic defense research program is thus essential to ensure that we do not awake some day to find the Soviets rushing to full-scale ABM deployment.

The third and, in my view, most conclusive argument for our strategic defense research program is the very real possibility that science and technology can in fact create a future in which nuclear missiles become less and less capable of their awful mission.

This journey to a safer world will not be easy, or short. Our research program is the necessary *first* step. But given the past record of experts' declarations about what could not be done in the future, I am dismayed by the absolute assurance with which some distinguished American scientists and others declare the President's dream to be impossible. Recall that Albert Einstein predicted in 1932: "There is not the slightest indication that [nuclear] energy will ever be obtainable. It would mean that the atom would have to be shattered at will." Such distinguished errors only strengthen my belief that we should not be dissuaded from a vigorous research program. The President's purpose and resolve are, quite simply, to do all we can to help create a much safer world for generations to come.

If we could defend our people, who would prefer to avenge them? If we could live secure in the knowledge that our survival did not rest upon the threat of retaliation to deter a Soviet attack, would this not be a preferable moral position? The search for something beyond reliance on retaliation is neither cynical nor naïve. From the outset, we have insisted that progress toward an effective SDI will have to proceed hand in hand with regaining an effective offensive deterrent and, paradoxically enough, with arms reduction as well. A persistent and patient dialogue with the Soviet Union is a necessary condition for life in today's world.

Indeed, in pursuing SDI, we are aware of alternative modes

of delivering nuclear weapons. Even a thoroughly reliable shield against ballistic missiles would still leave us vulnerable to other modes of delivery, or perhaps even to other devices of mass destruction. Despite an essentially leakproof missile defense, we might still be vulnerable to terrorist attacks against our cities. Our vision of SDI therefore calls for a gradual transition to effective defenses, including deep reductions in offensive nuclear weapons. Thus, SDI is part of the President's larger goal to reduce reliance on nuclear weapons and the role of nuclear weapons in international politics.

For the foreseeable future, however, nuclear weapons will be part of the inescapable backdrop of U.S.-Soviet relations. Even if at some future point the United States and the Soviet Union were to abolish their nuclear weapons, we cannot eradicate the knowledge of how to make them, nor the fact that other nations and terrorist organizations have that capability. These facts make it absolutely essential that we should undertake every feasible effort to reduce to the lowest possible level the risk of nuclear war.

v

I have elsewhere outlined six major tests that should be applied by the United States in deciding to commit U.S. conventional military forces to combat.² I argued that U.S. military forces have an essential, but circumscribed and necessarily limited, role in the larger framework of national power. That speech spawned a continuing debate inside and outside the government. In light of that continuing commentary, let me now reiterate the key points I made.

According to theories developed in the 1950s and early 1960s, limited war was essentially a diplomatic instrument—a tool for bargaining with the enemy. As such, it had to be centrally directed by the political leadership and applied with precise control. The gradual application of American conventional power, combined with the threat of incremental increases in the application of that power, would, according to the theorists, persuade America's opponents to accept a settlement while they avoided strategic defeat.

The fatal flaw of these theories of the 1950s was their neglect

²"The Uses of Military Power," address to the National Press Club, Washington, D.C., Nov. 28, 1984. Reprinted in the January 1985 issue of *Defense*, a Department of Defense publication.

of the domestic political realities of American democracy. Both these theories and the actual experience of Lyndon Johnson in Vietnam in the 1960s applied an eighteenth-century approach to war. In that period, as Clausewitz noted: "War was still an affair for governments alone, and the people's role was simply that of an instrument."

The framers of the American Constitution rejected this concept of war. Our Constitution reserves for the Congress alone, as representative of the people, the right to declare war. In fact, prior to Korea and Vietnam, except for occasional short excursions, presidents worked hard to build public support before taking America to war. From 1939 to 1941, Franklin Roosevelt worked and waited to build a consensus, even though Europe was under siege. He had no other feasible option. Though he would have preferred to do so, President Roosevelt never considered sending American forces into combat without the approval of the Congress and the assurance of support of the American people. In Korea, and then Vietnam, America went to war without a strong consensus or support for our basic purposes and, as it turned out, without the firm commitment to win. Indeed, as one of my predecessors, Secretary Robert McNamara, once observed: "The greatest contribution Vietnam is making—right or wrong is beside the point—is that it is developing an ability in the United States to fight a limited war, to go to war without the necessity of arousing the public ire."³ As successive administrations discovered, the American people had the final word. The "public ire" was aroused as perhaps never before—and never again should the imperative of public support be ignored.

Despite our best efforts to deter or prevent such developments, situations will arise in which it may be appropriate to commit U.S. military forces to combat. From our reading of the postwar period, this Administration derives several lessons that can be stated as tests to be applied in facing such choices. These tests cannot be applied mechanically or deductively. Weighing the evidence in specific cases will always require judgment. But applying these tests to the evidence will make it clear that while there are situations in which U.S. troops are

³ Quoted in Douglas H. Rosenberg, "Arms and the American Way: The Ideological Dimension of Military Growth," in Bruce M. Russett and Alfred Stepan, eds., *Military Force and American Society*, New York: Harper & Row, 1973, p. 170.

required, there are even more situations in which U.S. combat forces should *not* be used. These tests are:

- The United States should not commit forces to combat unless our vital interests are at stake. Our interests, of course, include vital interests of our allies.
- Should the United States decide that it is necessary to commit its forces to combat, we must commit them in sufficient numbers and with sufficient support to win. If we are unwilling to commit the forces or resources necessary to achieve our objectives, or if the objective is not important enough so that we must achieve it, we should not commit our forces.
- If we decide to commit forces to combat, we must have clearly defined political and military objectives. Unless we know precisely what we intend to achieve by fighting, and how our forces can accomplish those clearly defined objectives, we cannot formulate or determine the size of forces properly, and therefore we should not commit our forces at all.
- The relationship between our objectives and the size, composition and disposition of our forces must be continually reassessed and adjusted as necessary. In the course of a conflict, conditions and objectives inevitably change. When they do, so must our combat requirements.
- Before the United States commits combat forces abroad, the U.S. government should have some reasonable assurance of the support of the American people and their elected representatives in the Congress. Of course, this does not mean we should wait upon a public opinion poll. The public elects a president as a leader, not a follower. He takes an oath to protect and defend the Constitution. The people also expect a Congress sworn to the same principles and duties. To that end, the president and the leadership of the Congress must build the public consensus necessary to protect our vital interests. Sustainability of public support cannot be achieved unless the government is candid in making clear why our vital interests are threatened, and how, by the use, and only by the use of American military forces, we can achieve a clear, worthy goal. U.S. troops cannot be asked to fight a battle with the Congress at home, while attempting to win a war overseas. Nor will the American people sit by and watch

U.S. troops committed as expendable pawns on some grand diplomatic chessboard.

—Finally, the commitment of U.S. forces to combat should be a last resort—only after diplomatic, political, economic and other efforts have been made to protect our vital interests.

Each of these tests deserves lengthy discussion. For present purposes, several limited comments must suffice.

American interests are nowhere etched in stone. We should never succumb to the temptation to define a perimeter of vital interests, as Dean Acheson did in early 1950, in effect announcing that certain areas are “beyond our strategic perimeter.” This virtually, albeit unintentionally, invited North Korea, with Stalin’s approval, to invade South Korea. Judgments about our vital interests will sometimes depend on the circumstances of the specific case and trends, as well as on intrinsic values. Our vital interests can only be determined by ourselves and our definition of the threat. In his discussion of “the common defense” in *The Federalist Papers*, Alexander Hamilton argued that “it is impossible to foresee or define the extent and variety of national exigencies, or the correspondent extent and variety of the means which may be necessary to satisfy them. The circumstances that endanger the safety of nations are infinite.” For this reason, we not only can never say never; we can never *think* never.

When using force, the necessity to win requires a clearly defined, achievable objective on which there is clear agreement. In Korea, we paid the full cost of this lesson—though this lesson still eludes many. There, our original purpose had been to defeat North Korean aggression and restore South Korea’s territorial integrity. But we had divided counsels: many thought this could only be done if we eliminated the unnatural division between North and South Korea. We crossed the 38th Parallel and pushed forward to the Chinese border. But we were not united or determined to achieve the objective of uniting Korea. Again in Vietnam, failure to define a clear, achievable goal, and a belief that we could achieve what some wanted without a military victory, led to confusion, public frustration and eventual withdrawal.

When we define a clear objective, we must commit the forces necessary to achieve it. Gradualism is inherently attractive to some, but almost always a mistaken way to achieve military success. It exaggerates the illusion of control, violates the

strategic principle of concentration of force, and encourages underestimation of the domestic political costs entailed by any use of American military forces abroad. If combat forces are required, they should be introduced rapidly and in the strength necessary to achieve our objective at the least possible cost. Where force has been committed to a peacekeeping buffer role, as in Lebanon, and circumstances change so that the original objective cannot be achieved, there will always be those who discover some further objective that might be served by a continued American presence. But a peacekeeping buffer force cannot always achieve a wholly different objective quickly, if at all. If, for example, a peacekeeping force, sized accordingly, cannot fulfill its mission because there is no peace to keep, then it should be withdrawn. And this was our decision in Lebanon.

No aspect of the doctrine I have enunciated for determining the use of force has received more comment and criticism than the requirement that we have reasonable assurance of the support of the American people. There can be no such assurance, the critics say. A government forced to wait for its people will be paralyzed in international politics. Recognizing this handicap, our adversary will be emboldened. One critic put it this way: even if Secretary Weinberger had a favorable public opinion poll for using force, who could guarantee that the public would not change its mind?

My purpose is not to wish away the frustrations of leadership in a democracy. Perhaps if President Roosevelt had been willing to defy the opinion polls and act on his own authority in 1939, 1940 or 1941, the enormous losses of World War II could have been reduced. But perhaps only by waiting until the full force of American public opinion was clearly mobilized behind the necessity of winning an all-out war was President Roosevelt able, with our allies, to secure the unconditional surrender of both the Nazis and the Japanese.

It is not necessary for me to argue that the considered judgment of the American people is always correct. My thesis is more modest, but more important. It is that American democracy is constructed on the principle, not that the American people will always be right, but that there exists no better guide to a wise policy. Our government, therefore, constructs a process that forces the president and the Congress to lead and argue, to seek and win the support of the American people in order to sustain a course of action. The inherent assumption here is that this process will, in the long run, produce wiser

choices than any other mechanism yet discovered. Our Constitution does not say that this will be easy. But as Churchill once remarked: "Democracy is the worst form of government known to man—except for all the others." Our government is founded on the proposition that the informed judgment of the people will be a wiser guide than the view of the president alone, or of the president and his advisers, or of any self-appointed elite.

Taken together, these tests remind us of our most important and precious political feature: we are a democracy. Nothing distinguishes us more sharply from our Soviet adversary than the fact that whether at home or abroad, our government policy can be challenged and vindicated or reversed by a majority of our citizens. Any U.S. government that attempts to fight where our vital interests are not at stake, when we have no good reason to suppose there will be continuing public support, committing military forces merely as a regular and customary adjunct to our diplomatic efforts, invites the sort of domestic turmoil we experienced during the Vietnam War. Such a government has no grounds for expecting any less disastrous result.

The caution sounded by these six tests for the use of military force is intentional. The world consists of an endless succession of hot spots in which some U.S. forces could play, or could at least be imagined to play, a useful role. The belief that the mere presence of U.S. troops in Lebanon, or Central America or Africa or elsewhere could be useful in some way is not sufficient for our government to ask our troops to risk their lives. We remain ready to commit our lives, fortunes and sacred honor when the cause warrants it. But the hope that a limited U.S. presence might provide diplomatic leverage is not sufficient.

It has been said that I am relentless in building up our military strength on the one hand, but reluctant to use our military forces on the other. I have noticed that our commanders who would lead our men into battle and who sometimes have to order them to their deaths are equally determined that the need for such ultimate sacrifices must be fully warranted. Some critics will charge that commitments both to strength and caution are inconsistent. I believe that together they express a vital truth and a profound paradox. Recognition of our democracy's inherent reluctance about asking our troops to die for their country places an even larger premium on the

need to have the military power required to deter opponents. The central thread in the Reagan Administration's policy is to combine sufficient military strength with such a clear determination to resist aggression that we discourage challenges. By preventing the attack that would make necessary an American commitment of forces in response, we achieve our objectives without war. Thus, peace through strength is more than a motto—it is a fact.

What fires this Administration's determination to build up our conventional military capabilities, emphasize readiness and sustainability, and reduce reliance upon nuclear weapons is our commitment to make conventional deterrence work. The stronger our conventional deterrent, the less likely an attack, and the lower the risk of war. The more vigorous our conventional deterrent, the less we must rely on the threat of nuclear retaliation.

VI

Reviewing the results of the first SALT interim agreement and the ABM and SALT II treaties, we can see why President Reagan has labeled this "pseudo arms control." The two premises behind the ABM treaty were that both sides would keep only limited defenses, and that both would sharply reduce offensive forces. Neither of these premises proved true. The United States chose not to deploy the full ABM system permitted by the 1972 ABM treaty and the 1974 Protocol—and in fact dismantled its one ABM site in 1975. But the Soviets not only have improved and upgraded significantly their Moscow ABM system over the past several years, they also have invested as heavily in their strategic defense programs since 1972 as they have in their offensive buildup.

In the mid-1960s, the United States ceased building silos for its land-based ICBMs. In contrast, the Soviets leaped ahead in numbers and far ahead in missile throw-weight. In submarine-launched ballistic missiles, we stopped building; again they raced ahead. Only in the area of total strategic nuclear warheads, a basically irrelevant category since it does not consider modernization of launchers, accuracy or any other factors, did the United States maintain a lead. Soviet programs may finally overtake that. Harold Brown once summarized the phenomenon of constant Soviet additions: "When we build, they build. When we stop, they build."

Misinformed arms control advocates continue to talk about

a “spiraling” arms race. Yet the facts are significantly different. Today, the U.S. stockpile of strategic offensive and theater nuclear forces has some 25 percent *fewer* weapons than it did in 1967. The megatonnage of this diminished stockpile is approximately 70 percent lower than it was in 1967. Moreover, in October 1983, the NATO alliance agreed to reduce by 1,400 the number of nuclear warheads deployed in Europe. These reductions are under way and, together with the 1,000 warheads previously withdrawn, will reduce the number of nuclear weapons in the alliance stockpile to the lowest level in 20 years.

While we cannot give similar precise estimates for the Soviet nuclear stockpile, we do know that the Soviets have *added* more than 7,000 *new* warheads to their strategic offensive systems since 1967—6,500 of them since 1972, when the SALT I agreements were signed. Even with the SALT II restraints, the Soviet Union has built more warheads capable of destroying our missile silos than we had initially predicted they would build *without* any SALT agreement.

Treaty compliance—or noncompliance—is another verse in the same song. It was assumed that while the Soviets might exploit ambiguities in an agreement, they would avoid blatant cheating. But even in the case of the ABM treaty, the Soviets have engaged in gross violations.

Ignoring Soviet violations of arms control agreements will not make them go away. Indeed, reluctance on our part to respond can only encourage further Soviet noncompliance. The United States will continue to inform the Soviet Union of discoveries of its violations and give it the opportunity to discuss ambiguous situations. But when we have determined that the Soviet actions are deliberate and dangerous, we must respond. Arms control treaties are not like domestic laws, which can be enforced by civil authorities. Instead, arms control violations must be met by firm American reactions. But U.S. responses should be proportionate (though not necessarily identical in nature), and clearly in the United States’ interests. The Soviet leadership must understand that the United States has no intention of accepting one-sided compliance with arms control agreements. Progress on this issue is essential if arms control is to remain a useful component of our national security policy. Without exaggerating past mistakes, we must nevertheless learn from this experience of Soviet violations of past treaties.

The Reagan Administration’s approach to arms control is

quite different from that of its predecessors. Let me underscore four key differences.

First, President Reagan has insisted that we focus steadily on the goal of how to prevent nuclear war and build a more secure world so that this generation, and future generations, will live in peace with freedom.

The President's proposition—"A nuclear war cannot be won and must never be fought"—not only bears repetition but deserves contemplation. The President's determination to ensure that a nuclear war will never be fought is the mandate for our defense program and arms reduction initiatives. Our goal can be stated simply: to ensure that the defense of America's vital interests never *requires* the United States to fight a nuclear war. In our approach to arms reduction, as in our overall defense programs, we seek to protect and defend vital U.S. interests by reducing the risk of nuclear war to the lowest possible level.

Second, arms reduction is a component of our larger national security policy—not an isolated objective or independent instrument.

Arms reduction is one of the ways in which we pursue our national security objectives. Recognition that arms control negotiations and agreements are but a strand in the overall relationship between the United States and the Soviet Union brings into sharp focus a major dimension of any effective strategy for achieving arms reductions. This dimension—Soviet incentives—was entirely neglected in the previous approach. What are the Soviets' incentives to agree to useful, effective agreements for real reductions? Even more vital, what are the Soviets' incentives to *comply* with what they have agreed to?

In strengthening U.S. forces and acquiring arms while simultaneously negotiating with the Soviet Union, we are creating the necessary incentives for them to reach agreements that meet our interests. Why should the Soviets agree to reductions, if we reduce voluntarily without any corresponding Soviet reduction? Why should they comply, if we accept their violations? Ask yourself: Why is General Secretary Gorbachev now beginning to consider real reductions in strategic nuclear forces? Why are the Soviets beginning to move on INF negotiations? Quite simply, it is the new strength and resolve we have demonstrated. Not only should we negotiate from strength—this is in fact the only way we can negotiate effectively. It is not

Soviet goodwill, but our strength, that is bringing about their changes.

Third, negotiated, structural arms agreements must reduce arms, not legitimize increases.

President Reagan has identified the primary criteria for acceptable, negotiated arms reduction agreements. They must significantly reduce the number of offensive systems, bring us to parity (measured not just by numbers of warheads but by effectiveness) at much lower levels than each side has now, be effectively verifiable, and contribute to a broad policy of strengthening peace and stability. In view of past and current Soviet violations of arms control agreements, it is essential that future agreements establish comprehensive verification regimes that reverse the current Soviet pattern of denial of information essential to verification, facilitate U.S. monitoring and deter Soviet cheating. Without such an effective verification regime, an arms control agreement will serve only to limit U.S. options and programs without providing assurance that the other party has been similarly constrained.

Fourth, beyond negotiated agreements on forces lies an array of initiatives to control nuclear arms and reduce the risks that they might ever be used.

These initiatives focus on factors that could prevent accidents or unauthorized escalation; improve communication capabilities; and remove ambiguities, misperceptions and misunderstandings. This part of our arms negotiation agenda includes a large number of actions that the United States can take independently—without Soviet concurrence or agreement—but in ways that will actually reduce the risk of accidents, unauthorized use or inadvertent escalation. Continuing improvements in our command, control and communication (C³) and in our warning systems will reduce even further the already low risk that the Soviets might somehow come to believe that a surprise attack might succeed and the equally low risk that weapons could be used accidentally or in an unauthorized fashion. As we modernize our arsenal, we seek to improve weapons' safety and command and control procedures.

Operational arms control also includes a number of bilateral and multilateral actions—sometimes referred to as confidence-building measures—that seek to reduce the possibility of conflict through accident, miscalculation or failure of communications. During our first term, we proposed several new initiatives to the Soviet Union. Some of them have met with success.

In June 1985, both countries agreed to clarify their obligations under the 1971 "Accidents Measures" agreement to consult in the event of a nuclear incident involving terrorists. In October 1985, technical testing of the upgraded Moscow-Washington hotline was successfully conducted, and operational testing of the new capability to send facsimiles began in January 1986. In November in Geneva, President Reagan and Secretary Gorbachev agreed that both governments will examine the possibility of creating risk-reduction centers to lessen the chances of miscalculation or accidental conflicts. We also have conducted a series of policy-level discussions on regional issues.

VII

Implementation of our overarching strategy of secure deterrence requires an array of strategies that capitalize on our advantages and exploit our adversaries' weaknesses. Even when U.S. military investment was substantially larger than that of the Soviets, it would have been advantageous to have more explicit strategies for competing. After a decade in which the cumulative Soviet military investment has been 50 percent greater than our own, it is essential that we rebuild our forces in ways that emphasize our specific comparative advantages.

Exploiting our comparative advantages requires a purposeful direction of research, development and procurement programs, as well as adaptations of doctrine, operational concepts and changing organizations. This effort also means we will have to pay greater attention to the timing and phasing of U.S. initiatives, for example, the introduction of new weapons or major modifications of weapons or tactics.

The potential impact of competitive strategies is illustrated by the decisive advantage achieved by the combination of American technology and Israeli tactics in the 1983 air war between Israel and Syria. The "score" in that air war was 86 to 1 against Soviet MiGs. Another example is our new technology popularly referred to as "stealth." If American technology were able to create airplanes, ballistic missiles and cruise missiles essentially invisible to current Soviet radar technology, massive Soviet investments in defense against aircraft over the battlefield in Europe would become obsolete. Or, if the United States had a capability to reach into the Soviet Union and destroy selective, highly valued targets, Soviet confidence in its nuclear warfighting plan would perforce be greatly reduced.

While specific details of this technology are appropriately classified, publicly available evidence should suggest that these possibilities are by no means fanciful.

We are not likely to regain the position we had in the 1950s. Even now, we are just matching the Soviet levels of weapons procurement (measured in dollars), and it will be the mid-1990s before the "dollar cost" of our weapons stock roughly matches that of the Soviets. Soviet research, development, testing, evaluation and military construction programs remain substantially larger than ours, as do a wide variety of nominally "civilian" programs designed to create a stock of militarily useful assets. In these circumstances, well thought out strategies for competing effectively with the Soviets are no longer something that it would be "nice" to have. They have become a clear necessity.

An intelligent and sensible use of competitive strategies will allow us to maintain an effective force even if our overall budget is constrained. It should enable us to retain a secure deterrent without having to match the Soviets plane for plane, ship for ship, and tank for tank. Even without much systematic effort in the past, we were able to benefit from such an approach. For example, our shift to a strategy of low-level penetration by our bombers forced a large diversion of Soviet resources into air defense. This was certainly preferable to allowing Soviet investment of those resources in offensive forces.

Another area where competitive strategy has produced beneficial results is in antisubmarine warfare. Our ASW capability has reinforced the Soviet navy's defensive orientation, keeping it close to the Soviet homeland in order to protect its ballistic-missile submarine fleet. This limits the Soviet navy's threat to our sea lines of communication with our European and Asian allies in the early period of a war.

In the future, we must vigorously expand the number of areas in which we compete. We must develop thoughtful strategies based on areas of natural, sustainable U.S. advantage. Where possible, we should adopt strategies that make obsolete past Soviet defense investments. We should devise programs for which an effective Soviet response would be far more costly than the programs we undertake. If possible, we should try to move the competition into areas in which we have natural advantages and to channel Soviet defense efforts into areas

that are less threatening to us and less destabilizing to the overall military balance.

In order to capitalize on these opportunities and implement competitive strategies more effectively, we must also gain a better understanding of Soviet programs and policies. This Administration has already committed significant funds to, and is making progress in, rebuilding our intelligence capabilities. We must make a concerted effort to improve our understanding of Soviet perceptions, to identify Soviet weaknesses and to assess trends in the military balances. We will not only know our enemy better, we will be able to attend to his weaknesses more effectively.

In sum, I have decided to make competitive strategies a major theme of the Department of Defense during the remainder of this Administration. There are a number of reasons for believing we can successfully develop strategies for competing more effectively in selected areas. We are entering into a period of rapid technological change that can work to our advantage. We have superior skills in the development of military systems embodying some of the leading technologies and superior manufacturing techniques and skills. And having at last realized the danger of giving critical technologies to the Soviets, or allowing them to steal them, we are now more effectively slowing that flow.

VIII

The central lesson of World War II and the past four decades is this: American military power is the prerequisite of peace. Strength is the price for peace. If peace seems expensive, consider the alternatives. By scrimping on strength we will reduce our security and increase the risks of war. But if we fail to keep the peace, the costs will be incalculable.

In 1981, with broad bipartisan support, this Administration began rebuilding American military strength. As I said in my first appearance before the Congress, the road to recovery of a secure deterrent would be neither short nor easy. To reverse the results of a decade in which U.S. defense efforts declined by 20 percent in the face of a 50-percent increase in Soviet military strength required a long-term program. Our urgent need was to regain sufficient military strength to persuade the Soviets that we would allow them no significant exploitable military advantage against our vital interests.

Looking back on the first five years of our rebuilding pro-

gram, the prime result is that, unquestionably, U.S. military forces are stronger, readier, better trained, better equipped and therefore more capable than at any previous time in our peacetime history. The consequences of this are profound. Our rebuilding of American military strength is redefining the terms of the U.S.-Soviet relationship. Rather than dealing from weakness (and the prospect of greater relative disadvantage), the United States is now beginning to deal from strength and the promise of greater relative strength. Now we must persuade the Soviets that this is not a short-term commitment. Nothing could so enhance the prospects for peace as Soviet acceptance of the proposition that they can achieve no significant, exploitable military advantage over us. Denying the Soviet Union exploitable military advantage cannot by itself guarantee peace. But if we allow the Soviet Union such advantages as they had in 1980, we can be assured that we will then be tested in ways that risk war.

Seventy-five years ago, Theodore Roosevelt enjoined Americans to "speak softly and carry a big stick." His counsel of caution is as relevant today as then. But we must also carry a stick as powerful as our adversary's, for our strength is the foundation of our strategy for peace.

Stephen S. Rosenfeld

THE GUNS OF JULY

On a long hot day last June and then three straight days in early July, American foreign policy clicked into a new phase whose implications the nation is only beginning to explore. In rapid succession, the House of Representatives, dominated by the Democrats and until then an off-and-on check on the bent of a Republican President and Senate, took four signal votes.

The House dramatically reversed itself and voted "humanitarian" aid to the contras in Nicaragua. It initiated the first open American assistance to the non-communist resistance in Cambodia. It repealed a ten-year-old legislative ban on military aid to antigovernment guerrillas in Angola. And for the first time it publicly voted funds to sustain the resistance in Afghanistan.

The notion that the United States should sponsor putatively democratic forces striving to unseat Soviet-supported regimes had been gaining momentum for several years. These votes to aid the world's four leading anti-communist insurgencies, however, gave the so-called Reagan Doctrine a sharp new profile and a powerful new thrust. I propose to examine how the Reagan Doctrine came to be, what it might become, and what its progress tells us about the kind of nation we are. This is an inquiry into what might be called the guns of July.

II

At first glance the Reagan Doctrine has a familiar look; it appears to fit easily into the United States' 40-year quest for containment of the Soviet Union.¹ Actually it is different. As

¹For friendly analyses of the Reagan Doctrine, see Jeane J. Kirkpatrick, "The Reagan Doctrine and U.S. Foreign Policy," Washington: The Heritage Foundation, 1985; "Implementing the Reagan Doctrine," National Security Record No. 82, Washington: The Heritage Foundation, August 1985; Michael Ledeen, "Fighting Back," *Commentary*, August 1985; Charles Krauthammer, "The Poverty of Realism," *The New Republic*, Feb. 17, 1986. For skeptical analyses, see Robert W. Tucker, "Intervention and the Reagan Doctrine," New York: The Council on Religion and International Affairs, 1985, and Robert H. Johnson, "'Rollback' Revisited: A Reagan Doctrine for Insurgent Wars?" Washington: Overseas Development Council, January 1986.

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practiced by Presidents Truman, Eisenhower, Nixon and Carter, whose names have embellished previous "doctrines," containment is a defensive theory referring to efforts to limit the further spread of Soviet power.

The Reagan Doctrine goes over to the offensive. It upholds liberation, the goal of trying to recover communist-controlled turf for freedom. In theory, its reach is universal. In practice, the places to which the Reagan Doctrine has been applied are a particular set of Third World countries where the Marxist grip is relatively recent and therefore presumably light. This puts Ronald Reagan firmly in the older American anti-communist tradition of Woodrow Wilson, who, preaching nonintervention, put American troops ashore at Archangel and Vladivostok. That effort to strangle the Russian Revolution conferred a Wilsonian pedigree on subsequent attempts to undo Marxist regimes.

These attempts include the operations associated with the Inchon landing in Korea; the CIA's part, during the Truman Administration, in putting emigrés ashore in Albania; John Foster Dulles' public toying with the idea of liberation in Eastern Europe; and John Kennedy's landing of Cuban emigrés at the Bay of Pigs. All of these operations were disasters. Their implicit residual significance, to conservatives, is less as a model for emulation than as a caution against the halfhearted pursuit of such undertakings.

It was not, however, a sense of history that produced the Reagan Doctrine. It was an event in history, the appearance during the 1970s of a third wave of newly declared or alleged Marxist states, following the earlier waves launched by the two world wars. South Vietnam, Cambodia and Laos fell to communism and traditionally Western positions were lost in Angola, Mozambique, Ethiopia, South Yemen, Nicaragua, Grenada, Suriname and Afghanistan. On the American left, these developments tended at first to be viewed as coincidental and discrete and as not especially damaging to American interests, Afghanistan excepted. On the right, however, they were immediately received as the integrated and consequential reflection of a new global imbalance brought on by a default of American will—the "Vietnam syndrome"—and by the Kremlin's sure-handed orchestration of Soviet troops, arms and surrogates.

After the Soviet invasion of Afghanistan in 1979, these currents tended to merge. A Soviet juggernaut, it seemed even

to people of different persuasions, was truly on the move. Moscow appeared to be in a stage of territorial and political expansion the likes of which had not been seen since the end of World War II, and then only on a much more geographically restricted and strategically modest basis. The danger ever more widely perceived was that even if Moscow had not inspired and directed these convulsions, the affected countries would tend to gravitate toward Moscow and to create major new difficulties for the United States and its friends.

It was precisely here that the Brezhnev Doctrine of 1968 assumed a new life in the American mind. Strictly speaking, the original Soviet doctrine of national liberation—any state is fair game for the revolution—was and is the more fundamental and the more menacing to the West. Nonetheless, the Brezhnev version of this doctrine—once in the Soviet bloc, always in—came to be seen as particularly insidious and objectionable for its felt implication that the West had to sit by with arms folded as the Soviet Union gobbled up one new place after another in its own good time. No longer was the Brezhnev Doctrine taken just as an outrageous alibi framed to justify an imperial act, the subordination of Czechoslovakia. If, as it seemed, it was being invoked by the Kremlin to put its new acquisitions of the 1970s beyond Western challenge, then it somehow had to be confronted head on. Otherwise the West would have ratified by its inaction a Soviet doctrine implying the West's unilateral political disarmament. That anti-communist insurgencies were actually stirring in a number of these new acquisitions provided a nice opening to turn this perspective into policy.

Still, the Reagan Administration's inclinations on this score needed to be jolted into life. The opportunity came suddenly in the fall of 1983 in Grenada. Events presented the President with an easy opportunity to use American troops to topple a regime that looked thuggish and plausibly communist. Later, after the United States managed to inspect the files that overthrown Grenadian leader Maurice Bishop left behind, Grenada came to look like a textbook example of a helpless state on the way to becoming a Soviet tool.

At that point there was no American doctrine of supporting anti-communist insurgencies, and there was no anti-communist insurgency on Grenada for the United States to support. Nevertheless, the President counted substantial gains from his invasion. He had used force under an anti-communist banner and won plaudits in the political and diplomatic arenas, no

small matter for an Administration eager to show that it was no Gulliver tied down by liberal Lilliputians.

More importantly, for the first time, communism—if you apply the label to the elements deposed in Grenada—had been shown to be reversible. This was a positively sparkling tonic for an ideologically minded Administration that had ached at the thought that communist regimes were considered locked in by history while non-communist regimes were regarded as open to capture. It also gave the Reagan team new courage to deal with its considerable frustrations in Nicaragua, where the insurgency that the Administration had organized late in 1981 was on the verge of wilting for lack of congressional support.

III

In his first term, Ronald Reagan had worked to restore to the United States a perceived strategic superiority. Public concern and the pressures of reelection had guided him back toward a posture of guarded readiness for accommodation with the Soviet Union in nuclear matters. In regional disputes, however, no similar willingness to compromise was evident. One can speculate that Reagan's relaxation of relations with Moscow on arms control had stirred a compensating hunger for ideological involvement. If it was necessary to pursue something suspiciously like *détente* in one sector, then it was necessary to keep the conservative faith conspicuously in another.

Yet in the key arena, Nicaragua, the prospect was bleak. The rationale Reagan was then stressing—that Nicaragua's backing of guerrillas in El Salvador justified his own backing of a contra interdiction force—seemed thin and evasive in view of the *contras'* evident determination to bring down the Sandinista regime. A more convincing argument was needed. In the grand tradition of American anti-communist pronouncements, Reagan moved to the high ground of moral principle. His remarks in his State of the Union address of February 6, 1985, remain the basic text of what others then began describing as the Reagan Doctrine (Reagan himself has never used this term: he apparently has wanted to preserve some flexibility). Said the President:

Freedom is not the sole prerogative of a chosen few, it is the universal right of all God's children. Look to where peace and prosperity flourish today. It is in homes that freedom built. Victories against poverty are the greatest and most secure where people live by laws that ensure free press,

free speech and freedom to worship, vote and create wealth. Our mission is to nourish and defend freedom and democracy and to communicate these ideals everywhere we can. We must stand by all our democratic allies. And we must not break faith with those who are risking their lives on every continent, from Afghanistan to Nicaragua, to defy Soviet-supported aggression and secure rights which have been ours from birth.

Former U.N. Ambassador Jeane Kirkpatrick later noted dryly that the clarity of President Reagan's policy has been obscured by our practice of providing assistance to freedom fighters covertly, since covert policies are not explicitly defended by spokesmen of the government. But this is less than half of it. The President, after all, has not shrunk from defending his policy boldly in public forums. His policy is unclear because he has not clarified it.

His original rationale—that freedom is a universal right—is open and unlimiting; if freedom is a universal right, it must be wrong not to try to seat it everywhere, even in the Soviet homeland, no matter what the cost. The actual implementation of the Reagan Doctrine, however, has been confined to a relatively few places: one (Afghanistan) is on the Soviet border, but all the others are quite distant from the Soviet Union; the costs have been relatively modest. This gap between the doctrine's universal aspirations and its particular applications is a source of frustration to its more ardent advocates; to others it is cause for relief.

To the Administration, great strategic fruits are to be derived from a conservative foreign policy that starts with deterrence, proceeds through political, economic and ideological competition, and arrives at support for insurgents only as a last resort in the absence of openness to evolutionary change. National interest is regularly cited on behalf of the guerrilla movements the Administration assists.

To Secretary of State George Shultz, however, as to other official stalwarts, the stronger appeal lies in the "moral principles [that] compel us to support those struggling against the imposition of communist tyranny." A freedom fighter's use of force to resist tyranny is moral, he says, and is to be distinguished from a terrorist's use of force, which by Shultz' definition is intended to impose tyranny. He has broached the idea that aid to anti-communist insurgencies is a proper tit-for-tat rejoinder to Moscow's aid to Marxist insurgencies—a position implying a possible deal between the two great powers to swear off supporting insurgencies. His characteristic approach, how-

ever, has been to underline the moral, hence theoretically uncompromisable, aspect of the policy, even in Afghanistan, a country on the Soviet border that surely qualifies as strategic from a Soviet point of view.

Secretary Shultz and CIA Director William Casey say they have spotted a worldwide trend: an increase in the willingness of people to struggle against communist domination. They treat this phenomenon as one of spontaneous generation and do not calculate the contribution that American encouragement has made to inducing people to take up arms. Nor do they calculate the extent to which the United States accumulates a moral debt by its encouragement. Casey finds a moral argument for U.S. encouragement of anti-communist insurgents in what he characterizes as the illegitimate status of the Marxist-Leninist governments in question; these governments are illegitimate either because they are imposed (as in Afghanistan) or maintained (as in Nicaragua) by an outside power. He does not explain why the United States does not support attacks on unrepresentative governments friendly to the West, nor why the United States itself has kept afloat such unrepresentative governments. Nor does he explore the morality of the possibility that the United States, by its sponsorship of guerrilla war against a leftist Third World government, may in effect contribute to that government's decision to seek Soviet maintenance.

Shultz takes a further step. He lumps together communist aggression and tyranny, although the former refers in his usage to a regime installed by the Red Army and the latter to a regime seated mainly by its own efforts—quite a difference. He suggests that assistance to the foes of either one can be a lawful form of collective self-defense, which in turn seems to mean that, in the name of fighting communism, almost anything is allowed.

This is not to say all restraint has been cast to the winds. The Reagan Doctrine was not applied to Angola until early in 1986, a delay that pained, among others, Jeane Kirkpatrick. Once liberated from government service, she shed interesting light on internal debate in the Administration she formerly served, complaining that the State Department's Africa bureau, in pursuing negotiations with the Angolan Marxist regime, had kept the Angolan rebels at arm's length and had actually bestowed a big Export-Import Bank loan upon the Luanda government.

Conservatives invoking the Reagan Doctrine against a reluctant Administration are still trying to start up aid to the anti-communist opposition in Mozambique. There, however, Reagan is making a calculated effort to show Marxist President Samora Machel that Washington can supply, more effectively than can Moscow, the two basic commodities Machel needs: protection from South Africa and economic progress. Mozambique remains the best example of a situation in which the Administration, having a good guerrilla card to play, has not played it, choosing instead to try to wean the local Marxists over to the American side.

Ethiopia is a bit different. Some have urged the Administration to take up the cause of the Eritrean and other guerrillas fighting the Marxist government there. So far the Administration's answer has been no, on grounds that the rebels are not only secessionists but Marxists themselves. Meanwhile, through its immense food program Washington sustains the otherwise hostile government of Mengistu Haile-Mariam and trolls for the favor of the Ethiopian people. Here, again, is evidence that pragmatism is not dead in the Reagan Administration.

In fact, the Administration makes a pragmatic case for the Reagan Doctrine: it is containment-plus, on the cheap. The annual dollar amount of each current operation is in the several tens, or at most the several hundreds, of millions: not a big budget item even at the higher estimate and certainly far cheaper than the use of comparable American forces would be.

Reagan Doctrine partisans acknowledge the risks incurred by local friendly countries (Pakistan, Honduras, perhaps Thailand, conceivably Zaïre) that provide or may provide sanctuary for American-financed guerrillas. To minimize these risks the United States advertises its role as the sanctuary's guarantor and—though this somewhat undercuts its military purpose—keeps the level of military conflict within bounds. The further risks that might lead to the introduction of American forces arise only in Nicaragua, where a surge by the Sandinistas, a collapse of the contras or some kind of accident or provocation might necessitate direct U.S. intervention. Though the Reagan Doctrine is designed to obviate the need for the use of American forces, the moral commitment from which the doctrine springs would not expire simply because the guerrilla proxies had foundered. Besides, there is a subtle but unmistakable sense in which Washington hopes that the Sandinistas will

disbelieve its insistence that it will not send in American soldiers; so disbelieving, the Sandinistas will be the readier to relent. For this theory, it should be added, there is not yet any proof.

IV

Republicans and conservatives were real or likely converts to the Reagan Doctrine from the time of its inception. The idea of supporting guerrillas was, after all, central to what the Heritage Foundation has described as the Reagan agenda: a new economic theory, a return to traditional values, the strengthening of national security and a rebirth of national optimism. The idea was put into practical effect during the President's first term (although it was actually under Jimmy Carter's Administration that the CIA began working in Afghanistan), was given a fresh mandate by his reelection, and was endowed with a broad conceptual thrust as his second term opened.

It remained only for holdout Democrats and liberals to climb aboard. Not only was such a turn critical to the evolution of Administration foreign policy, given the majority that the Democratic Party retained in the House (253 to 182) even after the Reagan presidential landslide and the G.O.P. Senate victory of 1984; it was also critical to the process of party politics, given the distance and nature of the terrain many Democrats felt the party had to traverse to bring their policy closer into line with public opinion.

Since the summer of 1985, the relatively few liberals who had held their ground on these questions have derided the shift in the stance of most Democrats, laying it to a mood of frustration and political panic created by passing events in the spring of that year. Terrorists had seized a Trans World Airlines flight in Athens, killed a passenger and then escaped with impunity. The Walker family spy ring had been exposed, and marines had been gunned down in El Salvador. The spirit of the anti-communist movie crusader Rambo had been everywhere taken as a sign of the times. Commemorations of the 40th anniversary of Allied World War II victories over Germany and Japan were popularizing the idea of the legitimate and successful use of force to vanquish tyranny. Little wonder that Nicaraguan President Daniel Ortega's (eighth) trip to Moscow, following hard on the heels of an April House of

Representatives vote to withhold aid from the contras, sent Congress into a spasm of embarrassment and rage.

Yet plainly, deeper forces were at work. The conservative brief had sunk in: strategic factors matter, liberty matters, the world is hostile, the United States must fight back. And liberals are politicians too. "We have created the impression that we are too divided to govern," confessed Representative Stephen Solarz (D-N.Y.), a leading party voice, in mid-1985. "If Democrats are going to regain the confidence of the American people and recapture the White House, we will have to develop a new and more toughminded consensus on foreign policy."

Already the party was moving, if fitfully, toward national security positions long espoused by southern and Jackson Democrats. The latter, identifying with the late Senator Henry M. Jackson and the Committee for a Democratic Majority, had furnished Jeane Kirkpatrick and other anti-communist notables to the Reagan foreign policy team (and in some cases to the Republican Party). The Soviet invasion of Afghanistan had pushed Carter Democrats rightward on the core issue of the basic perception of the Soviet Union and on defense spending. The first Reagan term saw important Democratic Party figures taking more security-minded positions in arms and arms control, for example on the MX. As the second Reagan term opened, the intervention debate spurted and Democrats were inevitably drawn in. The House floor debates on aid for Nicaragua, Cambodia, Angola and Afghanistan provided the absorbing spectacle of minds being changed, and of national policy actually being made, before the public's eyes.

A year earlier a narrowly divided Congress, resisting the President's effort to build a bipartisan consensus around the Kissinger Commission's Central America findings, had cut off the program for the Nicaraguan contras that the CIA had begun in 1981. Private and foreign funds had sustained some 10,000 or more of the contras; on June 12, 1985, the issue was again joined. The House was openly asked to offer direct aid (\$27 million in "humanitarian" assistance) to a military force bent not simply on interdicting Nicaraguan supplies to Salvadoran guerrillas but, by the contras' own admission, on overthrowing the Sandinistas. Administration supporters stated that aid would break the military stalemate, put the democratic political resistance back into play, and prevent a direct American intervention. Opponents claimed aid would deepen the failure of an already bankrupt policy, isolate the United States in the

region, align Americans with the wrong Nicaraguans, and tempt a wider war and perhaps an eventual American part in it.

In a series of votes, 50 to 80 Democrats ended up voting for the aid, although in a package that modified the original Administration proposal with the aim of encouraging negotiations. It was some distance from a full Reagan victory, but the most hesitant element of the American political system had at least decided to vote funds to keep an armed guerrilla force in the field. By February 1986 Reagan had been emboldened to come back to Congress with a request for four times as much in outright military and economic aid.

The subsequent House debate on Cambodia that opened on July 9, 1985, touched the very quick of the Vietnam syndrome—shrinkage from involvement—though only symbolically, since a mere \$5 million was at issue and there was not the remotest chance that American troops might be drawn in. Not only had Cambodia, like Vietnam, gone communist. It had been lost, in one perspective, by the votes of mostly Democratic liberals in the 1970s. Now one of them, Solarz of New York, argued that the issue was help to repel a foreign invasion. He led an appeal for military aid, to be given not to the Khmer Rouge but to their lesser non-communist partners in the fight against the Vietnamese occupiers of Cambodia. He was acting to demonstrate, not least to American voters, that the Vietnam syndrome no longer held American policy in check.

Completing the sense of topsy-turviness on the House floor, a Republican, Jim Leach of Iowa, made the argument—once typically Democratic—that aid in the small amount contemplated could not possibly accomplish the large mission to which it was assigned, and that it would only stiffen occupying Vietnam, invest American prestige unwisely and put a distracting American stamp on an Asian cause. Do not rush to “assuage our national guilt over our past involvement in Vietnam” just to show we are not “paralyzed,” said Leach, picking up the theme on everyone’s mind.

The Administration said military aid was “not necessary or appropriate now.” Eminently pragmatic in this instance, Reagan officials saw no advantage in poking publicly into a hornet’s nest where the CIA was already quietly providing nominal nonmilitary aid to the non-communist rebels, and where the dominant Pol Pot group seemed bound to benefit most from any further aid to the insurgent cause. No committee hearings

had been held. There had been nothing faintly resembling a national debate on Cambodia. In a few hours on the floor, however, Solarz prevailed by the margin of 288 to 122, with 132 of 236 Democrats voting in favor of military aid. At once, Secretary Shultz said the Administration would avail itself of the amendment's option to make the aid humanitarian, not military.

The next day, July 10, 1985, the House turned to the Clark Amendment, the country-specific ban—named for former Senator Dick Clark (D-Iowa)—on aid to Angolan insurgents enacted by Congress nine years before in a surge of anti-executive branch, anti-CIA, anti-Vietnam War feeling.

In the intervening years, guerrilla leader Jonas Savimbi of UNITA (the National Union for the Total Independence of Angola) had impressed many legislators with his charisma, his professions of democracy, his staying power and his promise to topple or at least bloody the Cuban-supported MPLA (Popular Liberation Movement of Angola) government in Luanda. In earlier years the Reagan Administration, while following its predecessors in favoring a repeal of the Clark Amendment, had not lobbied hard for it. Repeal, with its implied corollary of support for Savimbi, had seemed inconsistent with the part of the Reagan “constructive engagement” policy aimed at negotiating matching withdrawals of South African forces from Namibia and Cuban troops from Angola—especially since South Africa was Savimbi's chief supporter.

By the summer of 1985, however, constructive engagement had lost much of its momentum in the region and much of its support in Washington. It was left to a few Democratic liberals like Representative Howard Wolpe (D-Mich.) to defend an embattled Republican policy on Angola. Since the House was building up a head of steam behind sanctions against South Africa at the same time it was voting to repeal the Clark Amendment, it seemed an odd moment for the United States to step into a pro-Savimbi policy parallel to South Africa's. But the House, caught up by the scent of an easy anti-communist vote, casually opened the way to reintervening in Angola's civil war. Sixty Democrats joined the majority in the 236 to 185 vote for repeal. By early 1986, support to Savimbi had been approved.

On July 11, 1985, the House arrived for the first time at open consideration of a congressional request for funds for the Afghan resistance. A covert program had been begun soon

after the Soviet invasion of 1979: brushing off Moscow's claim that it was merely tending to an intolerable eruption on its border, Jimmy Carter had accepted the geopolitical explanation that the Kremlin was moving in on the Persian Gulf. News reports subsequently told of what became an aid flow of several hundred millions of dollars a year. A congressional resolution sponsored by then Senator Paul Tsongas, a liberal Massachusetts Democrat, endorsing "material aid to help [the Afghan people] fight effectively for their freedom," had passed unanimously in 1984. The State Department, fearing further exposure of Pakistan's role as sanctuary, persuaded Congress to change the operative phrase to "effective support." By July, admiration for the valor and anti-communism of the guerrillas had carried to the House floor an amendment earmarking \$15 million for Afghan humanitarian relief. A brief colloquy avoided all issues of tactics and strategy and produced an uncontested voice vote for the measure. Congress had kept faith with the mujahedeen.

V

What is the record in Nicaragua and Afghanistan and the other places where the Reagan Doctrine is being tested? The President's defenders say he is performing a moral duty and fulfilling a strategic purpose and doing so prudently, without undue cost or risk to the United States. But this is too simple. The President, without conveying a clear sense of purpose, has pointed the country more deeply into open-ended conflicts with major geopolitical implications on three continents. In each of these places he states an intent to produce a negotiation leading to reconciliation, democracy and civil peace. No such result has yet come about, and a pack of nagging questions snaps about his heels.

There is the matter of resources. The costs so far are modest enough for the United States. But are we offering insurgents enough to compete effectively or, as critics on both right and left charge, "only enough to die"? Reagan met that criticism, rhetorically, in the 1986 State of the Union address, pledging a degree of moral and material assistance "not just to fight and die for freedom but to fight and win freedom."

Really? In Afghanistan, Nicaragua, Angola and Cambodia? Even if the other side escalates its aid? Having claimed the moral high ground, Reagan risks being marooned there. He is hard put to deliver enough "to fight and win" but he cannot

promise less without exposing himself to principled reproach. It would not do for him to say, as some of the shrewdest supporters and critics alike say of the Reagan Doctrine, that its purpose is simply to bleed the Russians, to add to their costs of empire. That is a rationale of *realpolitik*, and one that imposes the heaviest costs, real costs, on those struggling for freedom, since they are likely to struggle on but not to reach their goal, to fight but not to win. It is an ironic twist to a policy supposedly devoted to a higher purpose. We can comfort ourselves by saying we are merely supporting their decision to struggle. We can say that any form of anti-communist struggle, no matter how costly, is moral. But the burden is borne very unequally, not in a manner that a careful moralist would boast of.

There is the matter of the democratic quotient and political ambition of the "freedom fighters." Few Americans seem to question the credentials of the geographically and culturally remote Afghan rebels, though the Islamic fundamentalism many of them espouse would arguably produce a political order closer to the one found in current-day Iran than to that of the United States. They are freedom fighters in the sense of combating a foreign occupation but not in the sense conventionally indicated by the use of the term "freedom." There are experts, moreover, who assert that the particular Afghans receiving U.S. support represent elements selected by Pakistan for its purposes, not by the United States for its own. In short, there is little reason to believe that these Afghans support either the ongoing U.N. talks, of which they are not a part, or the idea of negotiations outlined by President Reagan at the United Nations last fall.

Of Nicaragua it is perhaps enough to say that the inner politics of the *contras* hinges on a struggle between democrats and remnants of Somoza's old National Guard, and that American military support tends to put cards in the hands of the latter. In Angola the United States has now thrown its weight behind a tribal leader whose professed commitment to democracy must be set against, among other things, his reliance on South Africa and his training in Mao's China. The two Cambodian factions to which we are offering token aid are so weak and dependent that our assistance to them risks becoming, in effect, aid to the dominant resistance group led by the genocidal Pol Pot. Fighting communism, one might say, is one thing; building democracy is another.

Then there is the matter of a protracted stalemate or the

threat of defeat. In reviving aid to the Nicaraguan contras, Congress swallowed its misgivings that, eventually, the American government might itself join the Nicaraguan battle out of frustration. But such frustration is not beyond imagining and the circumstances would find some Americans arguing that we had a commitment to keep, prestige to uphold, resolve to demonstrate—the considerations commonly invoked when the national security value, the feasibility or the popularity of a given intervention is in question. In other circumstances, the United States might respond to stalemate and frustration by plodding on. The existence of a doctrine generates pressures to honor it. It does not prevent a decision to cut losses but it can make this course more difficult to carry out.

There is a further doubt about the President's stated goal of a negotiated solution. The logic of his position points to a more ambitious intent to dislodge the local regime in question and humble its Soviet patrons: to "win." This is vexing. The Contadora plan for negotiations, which would involve lowering the temperature of the Nicaragua dispute, smothering it in external concern and drawing the internal parties into a political process, fares poorly. The negotiating track in the other Third World conflicts is bleak, too. So those who lean to "negotiations" are not well placed to insist that they have the answer. To be honest, they need to ask themselves whether the rational liberal premise that negotiated solutions are possible has any greater objective merit than the darker conservative suspicion that they are not. Certainly all of us would feel better if we could locate a successful model or precedent in which a civil war between communists and anti-communists, both with great-power patrons, had been peacefully resolved.

But President Reagan has a winner-take-all bent that hardly appears more promising. He believes, again not without reason, that Marxist regimes have an inner dynamic that drives them beyond the limits of reliable power-sharing. That belief pervaded the "regional peace process" he offered at the United Nations last October. In it he asked the Soviet-backed regimes in Afghanistan, Nicaragua, Cambodia, Angola and Ethiopia to sit down with the anti-communist guerrillas and prepare to submit their hard-won power to popular approval. Moscow and Washington would then "verify elimination of the foreign military presence"—which amounts to elimination of Soviet-bloc presence. Each country would then be "welcomed back [sic] into the world economy," that is, the Western fold.

The same puristic devotion to "freedom," or to "winning," marked Reagan's rejection of the Nicaraguan elections of November 4, 1984. The disagreeable choice—and Marxists will always tend to present disagreeable choices—was whether to accept a flawed election and work from there in a difficult political context, or to reject the election, as Reagan did, and work in what has turned out to be an even more difficult military context. Supporters of the Reagan approach say he is patiently strengthening his bargaining position. Realists reply that the Reagan Doctrine has so far brought him the worst of both worlds: political failure and military frustration alike.

Somberly, one must ask how the Reagan Doctrine and, no less, its Soviet counterpart fit the goal of improved relations that the two powers accepted at the Geneva summit in November 1985. Reagan went there insisting that Soviet global conduct was the number one issue; Soviet leader Mikhail Gorbachev retorted that only arms control was on the table. The two positions appeared to pass like ships in the night.

There is a difficult history here. Nikita Khrushchev declared wars of national liberation "sacred." The tendency to take such words seriously was one reason the United States intervened in Vietnam. Fortunately Moscow, despite its slogans, did not have the reach in the 1960s to go much beyond its commitments to Hanoi and Havana. In the 1970s the Soviets, seeking American sanction of their claim to great-power parity, and the Americans, hoping to regulate a burgeoning superpower competition in the Third World, experimented with devising rules within a framework of détente. The project for a code of conduct collapsed, partly because the Kremlin could not resist new targets of opportunity, for example in Angola.

Now the big insurgencies are anti-communist. The shoe is pinching Moscow's foot, and Washington is enjoying Soviet discomfiture. President Reagan, in his tender of a regional peace process, offered local Marxist "warring parties" (his term for the five Soviet-sponsored governments) and Moscow itself a role, but a loser's role. Believing as he does in freedom, it was a natural gesture. Yet it strains credulity to think that Gorbachev would accept this Reagan approach to the Third World any sooner than Reagan would endorse Gorbachev's views on class war.

VI

So far the President has not raised the level of American commitment in any of these insurgencies to any degree that

truly threatens the Soviet position. In that sense the bark of the Reagan Doctrine is worse than its bite, and this supports the comforting proposition that Reagan can have his insurgencies without losing his access to Moscow. To the extent that the President satisfies the claims of prudence, however, he undermines the claims of ideology. Strategic considerations may rationalize a policy of keeping the pressure on Moscow. Moral considerations and the political pressures they generate will keep pushing the President toward escalating and trying to win. The Afghanistan and Nicaragua interventions are in their seventh and fifth years respectively, and the longer they drag on—without success for the United States—the closer they will bring Washington to the choice of escalating or cutting losses, each with its own calculus of costs and risks.

In some American minds it is as though we had a right to roll back Soviet power from all the new places it penetrated in the 1970s; then the game would be more or less even and the two sides could strike a deal. But politics is not a game with an agreed baseline. If we know one thing about great-power politics, moreover, it is that action breeds reaction. The Soviets pushed too hard for American patience in the 1970s, creating extra strains that neither *détente* nor arms control could withstand, and in the process moving politics and policy in the United States notably to the right. Now the possibility exists that Washington, in a heady mood, could push too hard for Soviet tolerance in the 1980s. A new leader in the Kremlin, one may speculate, could have more to prove on this front.

Where is the pressure point? The American role in Cambodia is too small for Moscow to stew about. In Angola the Kremlin may be prepared to exploit an American involvement easily depicted as a partnership with South Africa. Nicaragua is for the Russians ultimately a geopolitical throwaway, where American engagement serves certain Soviet ends and an outright American victory might do no special harm. But in Afghanistan, on its border, the Soviet Union has much to lose: if it does, the Soviets may be driven to make the United States pay. Bringing further pressure on Pakistan would be one way; putting some aspect of bilateral relations with Washington on the line would be another. Yet it is not only conservatives but also liberals who leap to the cause of the Afghan freedom fighters—Jimmy Carter was the first to apply the term to them. The Administration is not reckless, but it is letting itself be pushed into a situation where there is no consensus on whether our purpose is victory, negotiation or simply the infliction of

pain on the Russians, and where there is too little calibration of how Moscow might someday respond.

Finally, the Reagan Doctrine forces us to go beyond the specifics of regional situations and their effects on great-power relations and to weigh what kind of a world we are trying to shape. Is it a world of sovereign states that accept certain obligations and common rules, or one in which precedence goes to the pursuit of values that are larger than nations?

I would argue that a world of states has its limitations but its considerable comforts, too. The impulse to freedom is strong among us but it can produce a romantic policy. A country with our pervasive international interests has a great investment in the ways of world order. Our readiness to ignore conventional forms of respect for national sovereignty, and to bolster forces that oppose governments, inevitably reinforces a like readiness by governments and forces hostile to us. And in that kind of competition, a government that is accountable to a democratic public opinion in a society ruled by law is inevitably going to be at a comparative disadvantage.

Many of us affirm the cause of freedom. We are eager to support this impulse in certain circumstances. But the last, liberal, Administration did not need a doctrine to fall in behind the mujahedeen. The best thing about the Reagan Doctrine is that Ronald Reagan himself has resisted pressures from his own core constituency to make him apply it indiscriminately.

The issue finally facing us is not simply the measure of devotion to our ideals. It is the wisdom and value of American involvement in foggy conditions and the question of how best to preserve American influence over the long haul. One does not have to be a Pollyanna to believe that the desire of struggling new Third World regimes to maintain their independence and to modernize effectively will tend to pull most of them away from the Soviet orbit as time goes on. To the extent that the Reagan Doctrine is prudently managed, it fails in its stated purpose of liberation. If it were to be managed with an eye to achieving prompter local successes, it could too easily slip out beyond the circle of acceptable costs and risks. This is what must temper our impatience to load up the guns of July.

Francis Fukuyama

GORBACHEV AND THE THIRD WORLD

Over the past five or six years, and particularly since the death of Leonid Brezhnev in November 1982, a wide-ranging reassessment has been taking place in elite Soviet policy circles concerning the Third World.

This reassessment has led to a distinct shift in the way the Soviets perceive and discuss developing countries, reflected in such documents as the new party program published in October 1985, and the report of General Secretary Mikhail Gorbachev to the recently concluded 27th Party Congress.¹ Gone are the ringing offers of military and economic support for the “liberated countries.” Instead the program says only that the Soviet party “has *profound sympathy* for the aspirations of peoples who have experienced the heavy and demeaning yoke of colonial servitude”—a tepid phrase used repeatedly by both Gorbachev and his patron and predecessor, Yuri Andropov, to signal the limits of Soviet support for Third World clients.² The radical “socialist-oriented” states—regimes like Angola, Ethiopia, Nicaragua and Afghanistan that came to power with the help of the Soviet Union and its allies in the 1970s—must, according to the party program, develop their economies “mainly through their own efforts.” The Soviet Union will provide economic aid, training and defense assistance (in that order), but only “to the extent of its abilities.” The document then leaves the subject of Moscow’s Marxist-Leninist allies altogether and suggests that “real grounds exist for cooperation

¹ The party program is reproduced in *Pravda*, Oct. 26, 1985. An English translation has been published by the Novosti Press Agency Publishing House, *The Programme of the Communist Party of the Soviet Union*, 1985. The text of Gorbachev’s speech appears in the 2nd edition of *Pravda*, Feb. 26, 1986.

² Italics added. Gorbachev first used the word “sympathies” in his “inaugural” address following the death of Konstantin Chernenko. See *Pravda*, March 11, 1985.

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[between the Soviet Union and] young states which are traveling the capitalist road," that is, countries like Argentina, Brazil, and the oil-producing nations of the Persian Gulf with market-oriented economies and strong political ties with the West.

The significance of these unremarkable phrases is perfectly clear to anyone who has followed past Soviet pronouncements on the Third World. No more is heard the optimism of the previous party program (adopted in 1961) that "a mighty wave of national liberation revolutions is sweeping away the colonial system and undermining the foundations of imperialism," or that socialism is capable of transforming "a backward country into an industrial country within the lifetime of a single generation."³

Gorbachev's Party Congress address de-emphasizes the Third World. Gone is the assertive self-congratulation found in Brezhnev's addresses to the 25th and 26th Party Congresses in 1976 and 1981, in which he celebrated advances of Soviet clients in Southeast Asia and Africa, noted the trend toward increasingly radical socialist solutions to economic development questions, and praised Moscow's military role in preventing the "export of counterrevolution." Gorbachev's speech omitted separate discussion of the Third World altogether, mentions not a single Soviet client by name, and accords no special status to "Socialist-oriented" countries.

The rhetorical turnabout implies a sharply diminished Soviet interest in the Third World—indeed, a profound disillusionment with the activism of the second half of the 1970s and its accompanying support for marginal Marxist-Leninist states.

But anyone expecting these shifts in Soviet pronouncements to signal a retreat from established positions will be disappointed. Soviet foreign policy in the early 1980s has stressed consolidation; the changing Kremlin leadership is disinclined to take on costly new commitments and hopes to limit the expense of existing ones. Such consolidation, however, has not led Moscow to contemplate seriously negotiating its way out of places like Afghanistan or Cambodia. Indeed, under Gorbachev the Soviets have demonstrated a renewed willingness to expend resources and to take tough measures to back up important clients like Angola, Afghanistan, Ethiopia and Libya.

³ The previous party program, adopted by the 22nd Party Congress, was published in *Pravda*, Nov. 2, 1961.

II

Moscow's reassessment of the Third World is directed against the foreign policy legacy of the late Brezhnev years, that is, the period of extraordinary Soviet activism that began with the joint Soviet-Cuban intervention in Angola in 1975, continued through the second joint Soviet-Cuban involvement on behalf of Ethiopia in 1977–78 and Moscow's support for Vietnam's invasion of Cambodia in 1978, and culminated in the Soviet invasion of Afghanistan in December 1979.

The activism of this period resulted in an increase in the number of Moscow's Third World clients as well as a shift in the political character of its client base. The number of self-professed Marxist-Leninist clients rose from three (in addition to Moscow's traditional "bourgeois nationalist" allies like India, Syria or Algeria) in the mid-1960s to almost 20 a decade and a half later.

The new clients of the 1970s tended to be small, weak states, more susceptible to Soviet influence and control. They lent each other mutual support when threatened with "counter-revolution" and voted consistently with the Soviet Union in international forums. Angola, Mozambique, South Yemen, Afghanistan and Ethiopia established formal vanguard parties; these elite, centralized organizations modeled on the Soviet Communist Party provided an institutional basis for continued Soviet influence that would not be dependent on the fate or whims of individual leaders. With East German assistance these states set up internal security apparatuses to keep themselves in power.

The Soviets realized concrete military advantages, gaining access to new facilities in Vietnam, Angola, Ethiopia and South Yemen. The evident success of Soviet and Cuban intervention in bringing their friends to power gave Soviet foreign policy a dynamism and credibility that it had lacked. Soviet prestige also profited from the espousal of Marxism-Leninism by young radicals in the Third World—the latter being virtually the only people in the world who still seemed to believe in this moribund ideology.

Despite these evident successes, there was a dark side to the Soviet position in the Third World bequeathed by Brezhnev to his successors. The problematic character of this legacy was first discussed by officials responsible for Soviet Third World policy in the Central Committee's International Department

before being taken up by the party's top leadership.⁴ In this as in other areas of policy, Brezhnev's death in November 1982 seems to have broken a logjam, and it permitted a more thorough airing of three broad issues: the economic cost of the Third World empire, the impact on U.S.-Soviet relations of Soviet activism, and the poor economic and political performance of Moscow's recently acquired Marxist-Leninist allies.⁵

With regard to economic cost, it was clear that a number of political leaders resented the growing burden of military and economic assistance to Third World clients. In addition to the steadily increasing subsidy to Cuba (currently estimated at \$5 billion a year), Soviet activism in the late 1970s saddled Moscow with costly new multibillion-dollar obligations to countries like Vietnam, Ethiopia, Afghanistan and Angola. The total cost of the Soviet empire rose, according to one recent calculation, from an estimated range of \$13.6 billion to \$21.8 billion in 1971, to between \$35.9 billion and \$46.5 billion in 1980.⁶ At the same time, the growth rate of the Soviet GNP fell precipitously, due to a declining rate of growth in labor productivity. According to the CIA, the Soviet leadership decided to cut back the rate of growth in both investment and defense spending.

The most prominent critic of open-ended assistance to Third World clients was Brezhnev's immediate successor, Yuri Andropov. His statements reveal a consistent skepticism concerning heavy Soviet involvement in the Third World.⁷ In June 1983 he delivered a lengthy statement setting forth his views on relations with the developing world in which he emphasized important qualifications on Soviet support:

We contribute also, *to the extent of our ability*, to [the socialist-oriented states'] economic development. But on the whole their economic development, just as the entire social progress of those countries, can be, of course,

⁴ I am indebted to Stephen Sestanovich for many insights on this issue. See his article, "Do the Soviets Feel Pinched by Third World Adventures?" *The Washington Post*, May 20, 1984.

⁵ A fuller discussion of the Soviet debate is contained in the author's study, *Moscow's Post-Brezhnev Reassessment of the Third World*, Santa Monica, Calif.: The Rand Corporation, No. R-3337-USDP, February 1986.

⁶ Charles Wolf *et al.*, *The Costs of the Soviet Empire*, Santa Monica, Calif.: The Rand Corporation, No. R-3073/1-NA, September 1983, p. 19. Figures are in 1981 dollars and include Eastern Europe.

⁷ See in particular Andropov's speeches, "Leninism: Science and Art of Revolutionary Creative Effort," *FBIS Daily Report, Soviet Union*, April 23, 1976, and "Under the Banner of Lenin, Under the Party's Leadership," *Izvestia*, Feb. 23, 1979.

only the result of the work of their peoples and of a correct policy of their leadership.⁸

These phrases would be repeated in the party program almost verbatim more than two years later, as would several others from that speech. Andropov was the first senior political leader to revive the dictum of Lenin and Khrushchev that the Soviet Union's chief influence on the world revolutionary movement comes about less through direct economic assistance than as a result of the force of its example as a developed socialist society. Put another way, the Soviet Union helps its friends best by helping itself first.⁹

The second point of criticism of the Brezhnev legacy concerned the impact of Soviet activities in the Third World on relations with the United States. Throughout the period of détente in the 1970s, Soviet spokesmen consistently asserted Moscow's "right" to support national liberation movements and simultaneously pursue normalized relations and strategic arms control with the United States. They resisted American attempts to link behavior in the Third World to overall East-West relations. Whatever the theoretical merits of this argument, by the end of the decade it was clear that the United States would not accept this Soviet interpretation of détente: the Soviet invasion of Afghanistan led directly to the Carter Administration's withdrawal of the second Strategic Arms Limitation Talks treaty from Senate consideration, just as the whole sequence of earlier Soviet interventions had poisoned the well of U.S.-Soviet understanding.

Since the early 1980s there has been evidence of a recognition in some Soviet circles of the deleterious consequences of Third World activism for the larger East-West relationship. Not surprisingly, this was most apparent among those Soviet commentators concerned primarily with relations with the United States. For example, both Fedor Burlatskiy, head of the philosophy department of the Institute of Social Sciences, and Aleksander Bovin, political commentator and occasional mouthpiece for Brezhnev and Andropov, suggested that measures be taken to insulate the central relationship from devel-

⁸"Speech of the General Secretary of the Central Committee of the CPSU Comrade Yu. V. Andropov," *Kommunist*, No. 9, June 1983 (italics added).

⁹Naturally, following Andropov, a number of senior Soviet leaders repeated this formula, including Ivan Kapitonov, then Central Committee secretary for light industry, Geidar Aliyev, a full Politburo member and first deputy premier, and Boris Ponomarev, chief of the International Department of the Central Committee, now retired.

opments in the Third World, either through new superpower "rules" or through regional negotiations. During the "imminence of war" campaign to block Euromissile deployment, Andropov stated quite frankly that the worsening of relations between the United States and the Soviet Union under the Reagan Administration made Soviet support for Third World allies vastly more risky and less feasible.

The final criticism of the Brezhnev legacy concerned the emphasis placed on Marxist-Leninist regimes and vanguard parties. Moscow's favored clients of the 1970s did not, as a whole, prosper in the decade following their arrival in power. They tended to be economically backward even by Third World standards, states whose developmental problems were compounded by overzealous efforts to transform their economies along socialist lines. In Mozambique and South Yemen, agricultural production dropped sharply for several years in a row, and Addis Ababa's (and Moscow's) inability to feed the Ethiopian population became an international scandal. In many parts of Africa, socialism had increasingly come to be associated with poverty.

Perhaps more serious were political difficulties: precisely because these regimes proclaimed adherence to Marxism-Leninism, they tended to be narrowly based, lacking the broad nationalist legitimacy enjoyed by the previous generation of leaders like Nasser, Sukarno and Nehru. The fact that many of them had come to power with the help of the Soviet Union, Cuba and other socialist states, or depended on them for continuing support, made them suspect in the eyes of their own populations.

It is by now a commonplace observation that for the first time a large number of pro-Soviet Marxist-Leninist regimes—including Afghanistan, Angola, Mozambique, Nicaragua, Cambodia and Ethiopia—have come under attack by indigenous guerrillas, forcing Cuba, Vietnam and the Soviet Union itself to deploy large numbers of combat troops in a counterinsurgency role. In an ironic turnabout, Moscow now faces the possibility of a Marxist-Leninist regime being overthrown by an anti-communist national liberation movement, a prospect heightened by the Reagan Administration's policy of supporting the guerrillas.

The Soviets, of course, nowhere openly admitted that their clients were unpopular or faced domestic insurgencies. Nor was there unhappiness with the Marxist-Leninist vanguard

party as the *theoretical* solution to the problem of influence in the Third World. What many Soviet commentators did, rather, was to distance themselves from their erstwhile allies and raise serious doubts as to whether the Marxism-Leninism of countries like Angola, Ethiopia or Afghanistan was anything more than declaratory. By the early 1980s, the Soviet theoretical literature was replete with remarkably frank criticisms of self-proclaimed Marxist-Leninist clients for such mistakes as "leftism," "voluntarism" and making a "premature transition into socialism," admitting that these errors had in many cases alienated the leaderships from the "broad mass of the population."

The emerging consensus that most self-proclaimed Marxist-Leninist clients were simply not sufficiently developed to permit their conversion into genuine socialist societies was neatly summed up by Andropov: "It is one thing to proclaim socialism as one's aim and quite another to build it. For this, a certain level of productive forces, culture, and social consciousness are needed."¹⁰ The current party program continues this downgrading of vanguard parties.¹¹ The civil war that broke out between two Marxist factions in South Yemen in January 1986 could only have confirmed Soviet skepticism, since it broke out within the "vanguard" Yemen Socialist Party. The conflict demonstrated the tribal mentality underlying the party's thin veneer of socialist ideology and the weakness of Soviet control despite penetration by various socialist bloc states of South Yemen's party and internal security organs.

Indeed, the performance of the Third World Marxist-Leninist clients has been so poor that at least one influential Soviet official responsible for Third World affairs has suggested shifting emphasis away from them to large, geopolitically important countries with relatively well-developed economies like Mexico, Brazil and India.¹² This approach, endorsed in the 1985 party program, would seek to exploit the "contradictions" (i.e., conflicts of interest) between capitalist-oriented Third World states and the United States and other developed Western countries. It represents a return to a Khrushchevite catholicism toward

¹⁰ *Kommunist*, loc. cit.

¹¹ This downgrading (already visible in Brezhnev's 1981 report to the 26th Party Congress) is evident in the program's reference only to "revolutionary democratic parties" rather than communist or Marxist-Leninist ones, and its call for ties with "all national progressive parties."

¹² This official is Karen Brutents, currently a deputy chief of the Central Committee's International Department, who is likely to inherit overall responsibility for Third World policy in this critical bureau. See his articles in *Pravda*, Feb. 2, 1982, and Jan. 10, 1986, and in *Kommunist*, No. 3, February 1984.

the developing world without Khrushchev's illusions that countries courted by the Soviet Union would one day become communist.

The bottom line of the broad-ranging Soviet reassessment of the early 1980s is clear: the Soviet leadership would like to reduce the costs of its Third World empire in favor of the development of its own economy; within its empire, it would like to shift emphasis away from weak, narrowly based regimes to larger, more influential ones, even if this means cultivating capitalist-oriented states in place of Marxist-Leninist regimes. These conclusions are not those of some obscure academic specialist, but have been endorsed at the highest levels of the party.

But, to paraphrase Andropov, it is one thing to proclaim a new policy, and another to implement it. How has the critique of the Brezhnev legacy translated into current behavior, and how might it be manifested in the future?

III

Soviet interest in the Third World can be measured in two ways: by the risks Moscow is willing to take on behalf of clients, established or prospective; and in the military and economic resources it allocates to them.¹³

As evidence of a lower risk-taking propensity in the early 1980s, one can point to the fact that the Soviets have not intervened in the Third World on a scale comparable to their initiatives of the later 1970s, including their invasion of Afghanistan. While the absence of large interventions clearly reflects an absence of easy opportunities, it is not difficult to imagine certain instances in which the Soviet leadership could have exhibited less restraint. For example, Moscow did not move beyond routine airspace violations to attacks on Afghan mujahedeen bases and camps across the border in Pakistan in the face of steadily increasing U.S. support for the insurgency. Nor did it make serious efforts to sponsor Baluchi separatism and otherwise destabilize Pakistan, as some observers had feared at the beginning of the decade. The Soviets have up to

¹³ "Risks," in this context, include the possibility of damaging the overall atmosphere of U.S.-Soviet relations, getting involved in a protracted local conflict, and losing face through overcommitment to an unreliable client. The risks of direct military conflict with the United States have arisen on occasion in Third World conflicts, but the Soviets have generally been eager to avoid them. Their unwillingness to assume such risks now is therefore not a particularly meaningful indicator of their intentions.

now been fairly cautious in marketing weapons to Iran or excessively adding to Persian Gulf instability by encouraging ethnic or religious separatism. The Soviets have been cautious in avoiding political contacts with the New People's Army in the Philippines, and even indulged in the misplaced opportunism of cultivating President and Mrs. Marcos as they were falling from power.

In Mozambique, Moscow's unwillingness to expend more resources has had a very damaging effect on its political position. The ruling Mozambique Liberation Front (FRELIMO) was a charter member of Moscow's "second generation" of clients and converted itself into a formal vanguard party in 1977. Since 1980 Moscow has merely stood by as Maputo gradually slipped further into the South African orbit, under the relentless pressure of a guerrilla war waged by the Pretoria-backed Mozambique National Resistance (RENAMO), and the regime's own economic mismanagement. While the Soviet Union increased its military and economic assistance for Maputo incrementally during the early 1980s and made symbolic gestures like the dispatch of naval combatants to Mozambican ports, it did not undertake a major intervention to rescue FRELIMO through, for example, the deployment of Cuban or Soviet combat forces. As a result, FRELIMO was forced to turn first to the West (including its former colonial masters, the Portuguese) and eventually to South Africa itself, a process that culminated in the March 1984 Nkomati ceasefire agreement.

Moscow's failure to provide Mozambique with economic assistance appears to have been much more critical in causing this turn than its failure to provide military security. In 1979, FRELIMO security chief Sergio Vieira warned his Soviet hosts that "economics is the key to a revolution's viability. We would not like to be a model of 'poor socialism'."¹⁴ Between 1978 and 1982, Mozambique received an estimated \$175 million in economic support from Moscow, less than one-tenth of the aid and credits received from Western countries during the same period. Moscow and its East European allies denied Mozambique membership in the Council for Mutual Economic Assistance when the latter applied in 1980, since this would have required a costly "leveling up" of its economy.

¹⁴ Quoted in Seth Singleton, "The Natural Ally: Soviet Policy in Southern Africa," in Michael Clough, ed., *Changing Realities in Southern Africa*, Berkeley: Institute of International Studies, University of California, Berkeley, 1982, p. 213.

In spite of these examples, it is very clear that the reassessment has not implied an across-the-board slackening of commitment to important clients around the world. Even as Mozambique was slipping away from Moscow, the latter took considerable pains to protect its investment in Angola, where Soviet-Cuban prestige was much more heavily engaged.¹⁵

The Soviets concluded a multibillion-dollar military and economic aid package with the Popular Liberation Movement of Angola (MPLA) regime in Luanda in 1983. They also directed a major military offensive against Jonas Savimbi's National Union for the Total Independence of Angola (UNITA) late in the summer of 1985 (in which Soviet advisers participated in the fighting down to the battalion level) and are currently preparing for another offensive in 1986. In these measures the Soviets again collaborated with the Cubans, who raised their troop presence from a low of perhaps 17,000 men at the beginning of the decade to the current level of approximately 35,000.

Indeed, if one surveys Soviet behavior in other parts of the Third World during the early 1980s, it is clear that Mozambique is an isolated case. Where necessary, the Soviets have been willing to take active military measures to support existing clients, even when involving risks comparable to those of the previous decade. The most significant of these was when Moscow deployed its own combat forces to man air defense sites in Syria in the aftermath of the 1982 Lebanon war. When the decision to deploy SA-5 missiles was taken in August or September 1982, Ariel Sharon was still Israel's defense minister; Moscow could not have known that it could remain aloof from a renewal of fighting between Israel and Syria.

The Soviets have been mounting offensives of steadily increasing intensity against Afghan mujahedeen positions in places like the Panjshir Valley each summer for the past five years, even as they conduct desultory talks on withdrawal with Pakistan. The Soviets supported not only the MPLA offensive against UNITA in 1985, but also Vietnam's dry-season offensive against the Cambodian resistance in November 1984. The Soviet presence in Southeast Asia has been growing steadily,

¹⁵ Even in Mozambique, military restraint was probably due to simple prudence rather than the broad considerations raised in the reassessment. Soviet options for military intervention were very limited there, given Mozambique's proximity to South Africa and its distance from the Soviet Union, and the strength of Pretoria's stake relative to Moscow's. In any case, there is no evidence that FRELIMO ever requested a Soviet-Cuban intervention.

with the stationing of Badger long-range bombers at their base in Cam Ranh Bay in late 1983. The Soviets have traditionally been very wary of providing Kim Il Sung with modern weapons for fear that he would go to war; but as a result of the North Korean leader's visit to Moscow in 1984, Moscow agreed to transfer to North Korea MiG-23 fighter aircraft.

By and large, Moscow has shown a similar willingness to pay whatever necessary to maintain its political position with established clients. The growth rate of its large subsidy to Cuba has tapered off somewhat since 1980 with the ending of the period of intense Cuban combat activity in Africa, but remains substantial, as does that of the subsidy to Vietnam. The Soviets concluded three multibillion-dollar arms deals with India in the early 1980s, which included rights to manufacture under license advanced MiG-27, -29 and -31 aircraft.¹⁶ Soviet assistance to Nicaragua has mounted steadily, including a commitment for \$200 million obtained by President Daniel Ortega during his visit to Moscow in April 1985. Deliveries to Moscow's major Arab clients—Syria, Iraq and Libya—have all increased during the 1980s, though economic considerations compete with political ones in explaining Soviet motivations. While military assistance to certain clients like Ethiopia and the two Yemens may have fallen slightly, this probably reflects the clients' lower immediate needs rather than an across-the-board decision to cut back.

Kremlinological evidence notwithstanding, early indications suggest that Gorbachev is, if anything, trying to stake out a more combative position in the Third World. Already during his tenure in office the Soviet Union has supported major offensives against the guerrillas in Angola and Afghanistan, and concluded a highly visible arms deal with Nicaragua in the immediate aftermath of Congress' voting down military aid to the "contras." In December 1985, Moscow provided Libya with SA-5 antiaircraft missiles just as a crisis between Washington and Tripoli over a terrorist incident was breaking.

Thus, whatever the practical policy consequences of the recent Soviet reassessment of the Third World, it is clear that they do not include a diminution of Soviet support for *existing* clients. This should not surprise us: retrenchment need not

¹⁶ The net wealth transferred by the Soviets is of course less than military and economic aid disbursements since Moscow recoups a certain amount in hard currency sales, trade, debt repayment and guest-worker labor.

imply withdrawal and a sharply reduced willingness to live up to commitments, as it did for the United States during and after Vietnam. Soviet policy in the early 1980s is best described as a kind of “muscular consolidation,” that is, greater caution in taking on new commitments, and concentration on the problem of protecting established Soviet positions. In the short run this has implied *increasing* levels of political and material assistance where it is already entrenched, despite a desire to reduce costs over the long term.

IV

This characterization of Soviet policies of the past few years does not seem to provide fully satisfactory answers to the issues raised by the internal reassessment. The period of consolidation has neither brought about substantial monetary savings—just the contrary—nor an appreciable change in the character of Moscow’s client base. It is possible that this has been due to the prolonged succession process, which has brought three general secretaries to power in as many years and has weakened top-level direction of Soviet foreign policy. Can we expect a much sharper change in direction once Gorbachev consolidates his own domestic power base?

In the political sphere, Gorbachev’s line of march is toward cultivation of key capitalist-oriented Third World countries—by implication at the expense of radical but weak Marxist-Leninist clients. Early evidence of this orientation may be Moscow’s establishment of diplomatic relations with Oman and the United Arab Emirates in 1985. Such a shift fits in nicely with the multilateralist thrust of Gorbachev’s overall foreign policy, which has sought to improve the atmospherics of Soviet relations with influential American allies in Western Europe and Japan. The Soviets, of course, have always kept open their lines of communication with the capitalist Third World; in the late 1970s, for example, Moscow assiduously cultivated the right-wing junta in Buenos Aires in order to protect its rapidly growing economic ties with Argentina.

But it is far from clear how a shift in emphasis to the capitalist Third World could be implemented much beyond the current state of affairs. Given the enormous amount of prestige invested in acquiring and keeping its Marxist-Leninist clients from the 1970s, the Soviet Union cannot abandon them now that the project of transplanting Leninism to the Third World

has gone sour, any more than it could abandon bourgeois nationalist allies like India in the 1970s.

An example of Moscow's dilemma is Angola: however disappointing its performance, the Soviets are stuck with the MPLA, both in view of the efforts of the socialist bloc in 1975 to put it into place, and because of the special ideological status it was accorded in the past. A significant lessening of Soviet-Cuban support could very possibly lead to its overthrow by UNITA, and this in turn would have adverse consequences for the Soviet Union's status as a great power. The same is true of Afghanistan. Despite Moscow's encouraging noises about interest in withdrawal at the time of last November's summit meeting between Gorbachev and President Reagan, the Soviets will have to consider carefully the implications for their worldwide position—including the situation in Soviet Central Asia itself—if they appear to be retreating under pressure from a Western-supported Islamic insurgency, an act that will inevitably look more like weakness than statesmanship.

Renewed emphasis on the capitalist Third World poses another problem as well: it is not clear what the Soviet Union has to offer large, geopolitically important states like Mexico and Brazil. Obviously, Moscow's package of internal and external security measures, so important to the survival of a small Marxist-Leninist regime like Angola, is of limited value to larger and more self-confident states. While the Soviets have had profitable economic dealings with Argentina in the past, their economic competitiveness in the Third World is dwarfed by that of the Western industrial countries, both as a market and as a source of technology or finished goods. Soviet relations with Brazil, which is itself a major exporter of arms, will never resemble those with South Yemen, let alone Cuba. The Soviet Union can at most hope to establish diplomatic relations with a few capitalist countries and play a marginally more important role in the politics of some regions.

In the economic sphere, the message of the recent reassessment is straightforward: concentrate on building the Soviet economy at home and discontinue pouring resources into dubious new Third World adventures. But it is difficult to see what opportunities Gorbachev will have for saving substantial amounts of money.

The lion's share of the Soviet "foreign assistance" budget for the Third World (including both military and economic aid) goes to Cuba and Vietnam, which occupy positions much

like Israel and Egypt for the United States. If the Soviets are to conserve resources on a scale that will have any considerable effect on the domestic Soviet economy, they will have to start economizing here. In the Soviet view, however, Cuba and Vietnam are not even part of the Third World, but full-fledged "socialist" countries on a par with the East European allies; the Cuban and Vietnamese portfolios are not even handled by the Central Committee's International Department, but by the Liaison with Socialist Countries Department within the Central Committee. Like Israel and Egypt in the U.S. foreign assistance budget, their share of the pie may be virtually sacrosanct.

This means that budget cuts will have to be made in the tier of clients below Cuba and Vietnam—states like Angola, Ethiopia, Syria and India. But not only will the savings available from these clients be considerably smaller, any cuts will have much more damaging political consequences. The Soviet Union already has a poor reputation among its clients as a source of support for economic development, a factor that played an important role in the turn of countries like Mozambique away from the Soviet Union. Should Moscow decide nonetheless to cut current aid levels, the United States and other Western countries would obviously be presented with opportunities to encourage the defection of further clients from the Soviet camp.

The one area where Gorbachev has a much greater degree of flexibility is in deciding whether to take on new clients and commitments when opportunities arise. We can expect the present Soviet leadership to be more selective in responding to appeals for help from revolutionary movements or regimes than the Kremlin leadership of the 1970s, particularly if these appeals come from small radical Marxist-Leninist groups in weak, economically backward countries. But this conclusion can be stretched too far: the Soviets' postulated lower propensity to exploit new opportunities applies only to situations whose risks and benefits are comparable to those of the previous decade. It by no means implies that the Soviets would avoid cultivating relations with a communist Philippines, should the New People's Army ever take power after Marcos, or that Moscow would not intervene in a chaotic post-Khomeini Iran. In both cases, but particularly the latter, the risks and benefits are larger by an order of magnitude than adventures like Angola or the Horn of Africa; Moscow may find the potential gains so great as to overwhelm the restraining considerations.

Gorbachev's future choices are constrained in many ways. He does not have attractive alternatives either to exchange his current clients for ones of a higher quality, or to save substantial amounts of money. Indeed, it is likely that he will have to pay an incrementally increasing bill simply to stay where he is. As a new leader with little foreign policy experience, he has a strong incentive to demonstrate to both internal and external audiences a certain toughness in support of Third World allies that have come under open pressure from the United States. This may account for his initial stance in support of Angola, Afghanistan, Nicaragua and Libya. In the longer run, there is no reason why Gorbachev could not constrain Third World expenditures if he were willing to take some political risks. To date, Gorbachev has spoken a great deal about major reorientations in both domestic and foreign policy without making the fundamental structural reforms or concessions necessary to bring them about. If this also comes to characterize his policy toward the Third World, then the inconclusive pattern of behavior of the past five years is likely to persist for the remainder of the decade.

V

A crucial variable affecting the level of Soviet activism and commitment in the Third World is the policy of the United States. The Soviet reassessment was brought about in no small measure by America's somewhat belated reaction to Soviet activism in the late 1970s. As we have seen, the Soviets have taken some account of the subversive effect that their behavior had on the broader U.S.-Soviet relationship, and of how the arrival of a more belligerent Reagan Administration raised the dangers of superpower confrontation and therefore restricted Soviet options for supporting clients. In this respect the unraveling of *détente* that began in the late 1970s has had a salutary effect. American support for the Afghan mujahedeen and the contras in Nicaragua (together with Chinese backing of the Khmer resistance and South African patronage of UNITA and RENAMO) have accentuated the problems of Moscow's clients by damaging Soviet prestige, costing the socialist bloc economic resources and effort, and forcing the Soviet political leadership to reconsider the wisdom of taking on such shaky commitments.

To the extent that the Soviets have been forced to reconsider the costs and consequences of Third World expansionism, the reassessment has been all to the good. But Moscow's unwilling-

ness to discuss seriously negotiated solutions to regional conflicts—reflected in its unbending positions on Afghanistan and Cambodia—raises the question of whether the reassessment has gone far enough. Whatever second thoughts Soviet specialists and political leaders may be having, the Soviet Union cannot be compared to the United States at the close of the Vietnam War, with that conflict's massive impact on American elite opinions and social fabric. This suggests that the present would be an inopportune time to ease the pressure on exposed Soviet positions, which might relieve the Soviet leadership of the responsibility for making difficult decisions in the future.

At the same time, the admission of vulnerability implicit in the Soviet reassessment suggests that the moment might be right for a somewhat different emphasis in American policy. The United States can make use of a number of different instruments in dealing with the Soviets and their clients in the Third World, including outright military pressure, economic incentives of aid, trade and investment, or political and diplomatic means. The "Reagan Doctrine" thus far has primarily emphasized the first of these. Military pressure plays an extremely important role in driving up the costs of the Soviet empire. But since not one anti-communist insurgency is likely to defeat outright the regime it is fighting, military pressure alone is not likely to achieve a reduction of Soviet influence.

Nor will economic inducements work in isolation from other means. Much of the Soviet reassessment has centered around the costs of the empire, and many Western observers have pointed out that Moscow's inability to provide its clients with sufficient economic assistance is a major vulnerability that the West can exploit. But the Soviets have been aware of this problem too.

For some time they have been counseling their clients *not* to cut their economic ties with the global capitalist economic order and to accept Western assistance, while leaving their political/military security apparatus in the hands of the socialist bloc. The Soviets thereby maintain their political influence while allowing the West to pick up the economic bill. A good example of this was Ethiopia, where the Marxist-Leninist government received massive Western humanitarian assistance without changing its relationship to Moscow or having to alter the disastrous policies that were in large measure responsible for having brought on the famine in the first place. Showering Soviet clients with economic aid and investment without tying

that aid to certain clear standards of political performance risks playing directly into Moscow's hands.

The United States needs to combine military pressure and economic inducements in a political framework reflecting the real possibilities of each Third World region. In a case like Afghanistan, this involves direct negotiations with Moscow to secure the eventual withdrawal of Soviet forces, while in most others it requires efforts to wean vulnerable clients away from their Soviet mentors. Earlier successful efforts to break clients out of the Soviet orbit, such as the U.S. courtship of Egypt in the 1970s and South Africa's handling of Mozambique, invariably involved a careful combination of military sticks with economic and political carrots. The Administration appears to be moving in this direction with President Reagan's proposal for regional negotiations in his speech to the U.N. General Assembly in October 1985. The choice of format for such talks requires careful consideration, however, since few countries can be expected to retreat from established positions or change sides altogether under the scrutiny of open negotiations.

Moscow will not be happy about attempts to break clients out of its orbit, and at some point will be forced to respond. It is important not to overestimate Soviet weaknesses, particularly in the military sphere, which traditionally has been an area of comparative advantage for Moscow. While the Soviets were embarrassed by UNITA's successes in the early 1980s, they eventually responded with massive aid to Luanda and a major offensive that seriously weakened Savimbi's organization, to the point where earlier Western hopes for the MPLA's overthrow have been replaced by fears for UNITA's survival. A similar scenario may unfold should the United States dramatically increase the quality of weapons going into Afghanistan.

But if the United States is willing to live with these risks in the short run, compelling the Soviets to escalate their economic and military investment in existing clients is not necessarily a bad thing. It will only underline their weaknesses and exacerbate existing Soviet resource allocation dilemmas. Through such policies the United States can hope that Moscow's reassessment of the Third World will not be a closed book, but will continue and deepen through the remainder of the decade.

Richard Holbrooke

EAST ASIA: THE NEXT CHALLENGE

Few subjects in international affairs over the past decade have generated as much enthusiasm as the economic flowering of East Asia. The economic miracle of the past 40 years along the western rim of the Pacific stands as one of the most stunning developments of the postwar era. Only a half-century ago, most of these societies were still in the grip of feudalism or foreign domination, often disease-ridden, and to a considerable extent without hope. Would that the generation of the 1930s and 1940s could see East Asia and the Pacific now.

But congratulations, however richly deserved, beg a critical question: is economic achievement a guarantor of a nation's successful future? What problems must be tackled today to sustain progress beyond tomorrow? Here one answer is very clear: with only a few notable exceptions, the political development of the Pacific rim nations has lagged far behind their impressive social and economic accomplishments. Put more bluntly, economic maturity in most of East Asia has yet to be matched by its political counterpart.

The age of autocratic rulers, many of whom have given their nations stability and economic growth, may be gradually coming to an end in East Asia. Unless political systems are developed that provide for orderly and predictable transitions of power, the achievements so proudly hailed will be threatened. Failure to begin this process as the current leaderships start fading from the scene could undercut and ultimately reverse many of the spectacular gains that have become the hallmark of the region.

II

Two issues in particular loom on the political agenda, both critical to Asia's future stability and growth. First, the uncer-

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tainty, and sometimes outright chaos, that attend so many shifts of regime in these nations are expensive anachronisms, whose costs increase in tandem with a country's level of modernization. Where they do not yet exist, systems capable of transcending the power of individual leaders, and of ensuring orderly and lawful transitions of political legitimacy, must be created and then stand the test of time.

Second, participation in the political process must be broadened so that revolutionary opportunists are denied the chance to inspire and exploit popular dissatisfaction. This point is particularly meaningful in an era when economic growth rates—which helped to underwrite social peace in the 1960s and 1970s—appear to be leveling off or even declining in much of East Asia.

While related, these two issues are discrete, and although the latter may presume the former, they should not be confused. The ability to move smoothly from government to government within an enduring, popularly accepted system is a prerequisite of sustained political maturity and, over time, of economic modernization as well. Without it, nations cannot establish the confidence upon which their future stability depends.

When the majority of East Asian economies were in their most explosive growth phase during the 1970s, the aura of success surrounding these countries tended to obscure all but their most serious political problems. After a period of widespread concern over the political stability of East Asia in the wake of America's Indochina debacle, the region's dramatic economic achievements were "discovered" by the West. At the same time there was a realization, and sense of relief, that the "dominoes" of Southeast Asia did not fall, and that the United States, contrary to widely voiced fears, did not abandon its historical interest and involvement in the region. Together, these gave rise to the recognition of the Pacific rim as the world's premier growth arena and, with the exception of Indochina, as a region where Moscow's ideological and subversive blandishments were almost completely rejected.

To be sure, there were still problems for those Americans who insisted on viewing Asia through their own peculiar ideological prisms. In the late 1970s, American conservatives looked with suspicion upon Washington's flirtation with withdrawal of American ground troops from South Korea and gestures toward expanded recognition of the People's Republic

of China. But in the actual event, the former was wisely suspended before any significant reductions were made, and the latter was accomplished successfully, to the great benefit of the region and without doing any real damage to Taiwan. Liberals, on the other hand, drew the conclusion that certain East Asian regimes did not meet their minimum standards for human rights and political development.

But nothing in international relations succeeds like political stability combined with economic progress. As the world's concern shifted in the late 1970s and 1980s from the erstwhile trouble spots of East Asia to the "arc of crisis" in southwestern Asia, a new vocabulary emerged to describe the dramatic and promising changes back in East Asia: the "newly industrializing countries," the "four tigers," the "new Japans," the "East Asian edge." Magazine covers proclaimed that "the Koreans are coming." Atlanticists who had long looked with distaste at the crowded, sweaty realities of the Third World began making regular trips across the Pacific, discovering as though for the first time the dynamic capabilities of the peoples of Asia. Some Americans expressed concern over specific human rights problems, and this became a factor in the annual congressional review of foreign assistance to certain nations, but most people recognized that, when judged by global standards, things were pretty good in Asia.

This belated heralding of what had long been evident to many Asian experts brought with it acceptance by a growing number of Americans that the Pacific was still vital to the U.S. national interest, and that this time, unlike the days when Asia evoked images of wars, famine and disease, Americans could look to the region as dynamic, growth-oriented, anti-Soviet and politically secure.

Indeed, the tensions and instability that did beset East Asia in the 1970s were concentrated largely within the once monolithic communist world. China and Vietnam fought a brief, vicious war in 1979 and continue to skirmish; communist Cambodia was invaded by communist Vietnam in 1978 and occupied, along with Laos; the Soviet Union invaded China's neighbor, communist Afghanistan, in 1979. It is true that China and the U.S.S.R. managed, finally, to lessen the tensions that had brought them close to war on several occasions, but their common border remains to this day one of the most heavily militarized in the world.

This contrast between communist and non-communist Asia

was understandably comforting to Washington. Maintaining U.S. involvement in the region despite the tragedy in Vietnam, Americans cheered Asia on and encouraged its nations' movement toward greater regional cooperation, in which we participated and from which we benefited.

Nothing that I am about to put forward is intended to deny the impressive achievements of the last decade. On the contrary, it is precisely to sustain these achievements, to carry them forward to their next plateau—above all, to institutionalize and thereby safeguard them—that the countries in question must realize a new political maturity.

III

Just what is it that is meant by “political maturity”? In its most elemental form, it begins with an expansion of the political process to permit a larger proportion of the citizenry to participate in the determination of their own leadership and political destiny. In nations where this political participation does not now exist, it can develop along various routes, but it must move beyond military or one-man rule. Clear terms of office for the leadership must be set; this must include a system for changing leaders in an orderly, established and legal way. And this system must be more than an official charade—it must be accepted by the nation, including its armed forces.

One could argue that in much of Asia it was successful autocracies that brought substantial prosperity, and that therefore they should continue in power without significant change. There is enough merit to this argument that one must begin by accepting gradual evolution, not heroic upheavals, as the preferable course for political development in most of the countries under discussion. The one recent deviation, the Philippines, proves the rule: had Ferdinand Marcos moved gradually, as so many urged, toward his own retirement and an orderly transfer of power, the chaos surrounding his “snap elections” could have been avoided. It was, in fact, Marcos' refusal over two decades to offer even a glimpse of a date for his own retirement or a system of succession that led to pressures for his departure, which were expressed in the only way open to his ever-growing opposition: mass demonstrations and military insubordination.

Expanded political participation does more than just placate Western human rights activists. For without following the totalitarian route, it is only through an expanding popular base

that nations can reach for long-term systemic stability—what we might call, in shorthand, political maturity. Systems that depend solely on a leader's personality, no matter how powerful or beneficent, do not meet this test. Neither do regimes that rely on armed force for their maintenance, nor those that relegate the opposition to the margins. In fact, this may amount to a catch-all definition of an immature political system: one that succeeds in planting the seeds of its own violent removal by driving the opposition underground and toward revolutionary activity or, conversely, by creating the conditions for a military coup.

No demonstration of this principle could have been more explicit than recent events in the Philippines. Marcos, for all his once-legendary brilliance and dynamism, had long ago started creating an open-ended rule. His tactical skills, military backing and early economic successes gave him the momentum that carried him forward. But his refusal, until the end, to even name a vice president, let alone set out a timetable and system for the selection of a successor, left his opposition with few choices: to accept Marcos' *de facto* presidency-for-life, to join the communist guerrillas, or to use nonviolent public pressure to effect his departure. It is to the credit of the Filipino people that so many of them, including not only those in the church but finally those in the army, chose the third approach.

Systemic resilience has been in short supply in much of East Asia. In three of the region's most important countries—Singapore, Indonesia and the Philippines—one dominant figure has ruled uninterrupted for two decades. In Taiwan a family dynasty has held the reins of power for over 35 years. In South Korea, only a brief and tumultuous interlude has interrupted 25 years of control by two successive army generals. And even in China real power has been wielded by only two men since 1949. For these countries, as well as for Thailand with its unique system, creating a stable system of government that can outlast individuals and generate confidence at home and abroad is of paramount importance. No issue—not even economic development—will be as meaningful in determining the legacy the present generation of leaders leaves to its nations.

To be sure, even while arguing for change, one should give the East Asian autocrats their due. Especially in the early stages of their power, they generally enjoyed a significant amount of popular support, reinforced by spectacular economic growth. This was certainly true of General Suharto, who saved Indo-

nesia from chaos and a communist takeover and has given his island giant two decades of relative calm. It was true of the Korean generals, Park Chung Hee and Chun Doo Hwan, each of whom brought undeniable benefits to their nation. It was true, as well, of the dynasty that has led Taiwan, once they gained some degree of perhaps grudging support from the people of Taiwan by presiding over rapid economic growth. It was even true, for a while, of Ferdinand Marcos, whose early years showed promise and who enjoyed long-standing support from many of the same groups that turned against him at the end, such as the businessmen of the Makati district of Manila. And it is true of Deng Xiaoping, whose economic liberalization and reforms seem to have generated genuine enthusiasm among the people of China.

Yet a pattern emerged: early enthusiasm for the autocrat gradually gave way to new, or renewed, desire on the part of many citizens for greater participation in their own political destiny. And, ironically, successful autocracies often found that their political base shrank as the economic benefits of their rule broadened—and then, perhaps, shrank still further if and when the economy declined. A form of the “revolution of rising expectations” was at work in an Asian context.

Long-term leaders thus confronted a dilemma. If they tried to liberalize their regimes in order to broaden their political base, they might diminish their power. Then, to retain their hold, they might have to fall back on increased restrictions and repression backed by armed force, and this could greatly damage both economic progress and political cohesion. The short-term risks of political liberalization—divisive factionalism, corrupt elections, demagoguery—are evident enough. But the consequences of a narrowing base of support for a ruler not subject to any systemic or institutionalized limits on his term of office (without which coups and acts of political violence are encouraged) are potentially more dangerous in the long term. Witness Park Chung Hee and Ferdinand Marcos.

Over time, a personal political base tends to narrow; such is the normal course of fickle popular support, whether in a democracy or an autocracy. Paradoxically, while at first institutions do not win popular support—that is usually reserved for personalities—over the longer term they often become the polestars around which differing political tendencies can co-exist. Such is the case today in countries like Spain and Portugal, as well as such developing nations as India. It is part of the

enormous challenge now facing President Corazon Aquino of the Philippines, who must try to turn the massive popular backing she now enjoys into support that is more institutionalized without losing the unique quality of her own popularity. In sum, a failure to broaden their political base pushes governments from reliance on limited methods of control to the use of greater and more damaging restrictions and repression.

The very idea of political maturity may sound neo-Wilsonian, with even a nineteenth-century ring, like an optimistic relic from a halcyon age. Consider the remarks of Camillo di Cavour, the political genius who patched together the modern Italian state under circumstances considerably less promising than those prevailing in almost any of the Pacific rim nations. "For industry to develop and prosper," argued the Sardinian liberal, "there must be such a degree of liberty, that we do not hesitate to affirm that progress will be more general and more rapid in a State which is actually inquiet, but solidly endowed with liberty, than in a more tranquil State which lives under a system of compression and regression."¹

With only a few competitors, the best examples of "compression and regression" these days are found in the communist states, characteristically willing to use almost unlimited force to maintain power. Nations and peoples absorbed by communism do not, as a rule, change themselves thereafter. But this observation, true insofar as it applies to absolute control by a communist party, should not tempt one to dangerous and seductively simple conclusions about the thrust of American policy. It ought not, in particular, lead to an uncritical embrace of authoritarianism as the more palatable alternative to communism or most appropriate system for peoples of a developing region as promising as East Asia. For, ironically, repressive and unrepresentative governments of the right may in the end bestow a great gift upon the radical left, creating for revolutionaries precisely the target they have difficulty engineering for themselves—a window of opportunity that those who advocate support of the authoritarians through thick and thin might well ponder.

Yet if it is partially true, as has been charged, that the United States inflicts a wound upon itself when, in the absence of a

¹ Letter from Cavour to Professor Augusto de la Rive, Nov. 12, 1847, in Mack Walker, ed., *Plombières: Secret Diplomacy and the Rebirth of Italy*, New York: Oxford University Press, 1968, pp. 66–67.

vital, democratic local opposition, it appears to abandon a tyrant it has previously supported, then surely it is inarguable that U.S. leaders needlessly harm American interests—discrediting U.S. rhetoric, making Washington's policy appear purely cynical—when they fail to support, even if by indirection, efforts within an authoritarian nation to evolve toward a more broadly based political system.

This was admirably illustrated by events in the Philippines. American policy took some odd turns from time to time, but in the end the Reagan Administration came down on the right side. Backed by unusually strong bipartisan support, American policy was crucial in helping the Filipino people achieve a relatively bloodless transfer of power despite President Marcos' last desperate efforts to hold on. It was a demonstration of how American influence can be used effectively to encourage positive change and broader popular participation in the political process.

IV

This is not, however, a plea to use American power to replicate the U.S. system of government in faraway lands. The experience of the past 40 years has given this nation bitter instruction in the near impossibility of indiscriminately transplanting American political norms—peculiar and perhaps unique by almost any criteria—to other countries. What plays in Peoria will not necessarily play in Pattaya. We can all sympathize with the first president of the Philippine Commonwealth, Manuel Quezon, who remarked that he preferred a government run by Filipinos, even if it were hell, to one like heaven run by the Americans. (Jaime Cardinal Sin later retorted that, under Marcos, Quezon's wish seemed to have been granted.) No nation, including the United States, can pretend to design political institutions for another. Each system has its own demands; application of any single litmus test is simplistic and unrealistic.

But even accepting that, absolutism—no matter how benevolent or well intentioned—outlives its utility as any society matures socially and economically. Political development may lag, but it cannot indefinitely remain untouched as the rest of society advances. Something has to give; if politics does not move forward, the economy will eventually move backward. Over the long run, absolutism is inconsistent with the complexities that characterize modern, industrialized economies. The

paradoxical blend of unpredictability and rigidity inherent in dictatorship collides with the dispersal of decision making, and hence the dispersal of power, necessary to advanced capitalism. Absolutism robs a nation of the opportunity to tap the full potential of its population, sowing pockets of resistance to central authority that can, in the worst case, result in violent revolution.

To be sure, there are those in the United States who argue, or at least did so until the fall of Marcos, that virtually any attempt to liberalize authoritarian regimes will lead to instability benefiting only domestic Marxists and Soviet global ambitions. Iran and Nicaragua are the favorite bogeymen invoked in this particular world view, and the sad events in those nations are routinely misinterpreted to suggest the dangers of trying to effect political change.

But these examples suggest the contrary—the blindness and narcissism of leaders who, to preserve their own power and vanity, allowed their nations to be driven to the wall. The hard truth is that monarchs and autocrats, like all mortals, must ultimately die. And when they do, it is not they who pay the costs inherent in the luxury of personal rule—those who come after them do. Their successors, as President Aquino is discovering, are the ones who must deal with the consequences of long years of political stagnation and massive corruption. They and their countries face an uncertain future, with neither mechanisms nor institutions to guarantee social peace or effective government.

It is no dishonor for a democratic pragmatist to concede that the steps leading to broader political participation are risky ones. Where the opposition has long been denied any voice, the situation may turn feverish and run to the advantage of extremists of various persuasions. Middle-class revolutions sometimes have a way of falling into the hands of Jacobins. This, however, merely points up the central lesson of timing: the best time to tinker with political change is when a nation is in the ascendant. Once a country has fallen into absolutist crisis, all roads may lead to disintegration.

And Asia is, by and large, very much in the ascendant, remarkably well suited to constructive political evolution. Factors favoring political stability are present in good measure: societies like the “four tigers”—Korea, Singapore, Hong Kong and Taiwan—are affluent, blessed with unusually equitable distributions of wealth, and standards of living that are still on

the rise, albeit less quickly than a few years ago. And each—indeed, most of the non-communist states in the region—has a solidly market-oriented economic system, a big asset on the path to political maturity.

Most important is the virtual absence, with the single notable exception of the Philippines, of communist insurgencies that threaten national stability. For this situation, Asia owes a considerable debt of gratitude to the Vietnamese, who have so successfully discredited the attractiveness of Soviet-style revolutionary government. In fact, except where communism was captured by nationalism early on (China, Vietnam) or was imposed by force by a communist neighbor (North Korea, Mongolia, Laos, Cambodia), the region has almost completely rejected Marxist rhetoric and ideology as intellectually bankrupt.

v

Where do the non-communist states of Asia and the Pacific find themselves along the spectrum of political maturity?

Japan has shown the way. Today we take Japanese democracy for granted, but Japan's transformation from feudalism and emperor-worship to one of the world's most stable and representative democracies in less than 40 years—indeed, in less than 20 years—is an achievement even more astonishing than that country's economic resurrection. And more important, Japanese political maturity underlies, makes possible and gives confidence to the continuation of its prosperity. For without its political stability and a system that guarantees orderly and popularly supported transitions of power, international belief in the viability of Japan's economy would be far lower—regardless of Tokyo's economic muscle.

Australia and New Zealand—the only nations on the western side of the Pacific basin that still maintain their prewar political structures—both enjoy stable and orderly institutions, all the more attractive because they are democratic. So too does Malaysia, which has successfully passed power from government to government for more than two decades and, in the process, managed to contain potentially explosive racial and ethnic divisions.

These countries have experienced orderly transitions of political power since World War II. Incredibly enough, none of the other East Asian states, no matter how peaceful it may appear, has successfully passed this critical test (with the excep-

tion of the Philippines prior to Marcos' 1972 declaration of martial law). Thailand, Indonesia, the Philippines, the "four tigers" and, for that matter, China, all stand with one foot in a new era, the other still rooted to the familiar past.

Thailand, as usual, defies every categorization. But its peculiar hybrid government—a popular monarchy that affords continuity, coupled with a weak parliamentary system—has begun to offer some promise, however tentative. All the same, while the coup attempt of September 1985 fortunately failed, it is a clear reminder of the hurdles in the way of Thailand's gradual political development. An even greater danger could come if the present king is succeeded by a less popular or more meddlesome monarch (doubts surround the crown prince on this point). These problems will be especially worrisome if the military is not cured of its traditional inclination to seize power. Notwithstanding these concerns, Thailand is best served by a preservation of its monarchy, which enjoys wide support and, most important, is universally accepted as possessing what Henry Kissinger, in another context, called "legitimacy." To the extent that the political system evolves, Thailand's government should continue to derive its legitimacy and authority from the monarchy, although it would be tragic if that authority were used again to justify military rule.

Indonesia, in many ways the key to Southeast Asia's future, has never had a peaceful transfer of power. Indeed, its only transition of power to date (from Sukarno to Suharto) achieved notoriety as the worst bloodbath in postwar Asian history, exceeded only by Pol Pot's genocide in Cambodia. Still, Suharto and the military's system of "guided democracy" have to be credited with holding together a nation that once looked as if it would fly apart under the combined centrifugal force of ethnic, religious and ideological fissures. The accomplishments this has allowed have not been small. Jakarta has become the driving force behind the Association of Southeast Asian Nations (ASEAN). Since 1966, in a development scarcely short of the miraculous, Indonesia has attained rice self-sufficiency. Its economy grew by an average of ten percent a year, though of late that has "dwindled" to somewhere around five percent—a rate that much of the developing world would happily accept. And although concerns continue to be expressed over the problems of East Timor, Indonesia has done a great deal to moderate international criticism. The discovery of new oil fields augurs well for future prosperity, though the recent drop

in world oil prices is bound to retard the process. While the Indonesian regime tolerates a limited amount of political diversity, the acid test of a peaceful succession has yet to be met. For the 64-year-old President Suharto, this issue, more even than his prevention of a communist takeover in 1965, will determine his legacy and place in Indonesia's history.

China, whose belated appearance as a willing participant in the East Asian economic miracle has excited such interest and general admiration, presents the greatest conundrum. The age of its current remarkable leader—a towering figure straight out of the pages of history—makes an imminent transition there likely. Transitions of power in China have been characterized by chaos and often violence since the end of the last century. Will the reforms instituted by Deng outlast their 81-year-old creator? Or will his passage from the stage be accompanied by a revival of the sort of factional politics that has so often prevented China from achieving its full potential?

Perhaps his long years of confinement during the Cultural Revolution gave Deng a clear understanding of the worthlessness of Mao's personality cult, and perhaps this inoculated him against such excesses. Whatever the reasons, Deng has done more than any other leader in the countries of uncertain transitions to anticipate and deal with the problem of an orderly succession. He has removed most of the aged members of the Central Committee. He has restructured the government in an attempt to streamline its alarmingly sluggish and inefficient bureaucracy. He has experimented with various forms of decentralization. And, most innovatively, he has directed that the government identify a "third echelon" of young leaders—men and women in middle age who are singled out, almost like graduates of France's *grandes écoles*, for placement on a fast track to administrative and political power.

All this is of epochal importance not only to China but to the world. If it succeeds, stability and continued growth will be Deng's lasting legacy. It must be recognized that Deng's efforts will be conducted within the framework of a state controlled by a single party tolerating no outside political competition. Factionalism and disagreement within the Chinese Communist Party itself have been regular occurrences for over 60 years, but choices for the people of China that fall outside the overall framework of the party are not likely to be available in the foreseeable future. And while this creates a system of government alien to most Western values, it seems that, for the

overwhelming majority of Chinese, Deng's China is a substantial improvement over what preceded it. If he can bequeath an orderly transition of power to the next generation of leaders, it will be a momentous achievement—perhaps even, in time, permitting a greater social and political pluralism.

Of the “four tigers,” Singapore, that astonishing East Asian microchip, faces the least daunting prospect for change. Since its separation from Malaysia 20 years ago, living standards have shot up faster in this city-state than anywhere else on earth, under what one might call a system of controlled democracy. Still, Singapore's enviable performance has been largely the work of one extraordinary man, Lee Kuan Yew, and there is no telling how the system will survive his ultimate departure. Lee, like Deng, is aware of the problem, and has made substantial efforts to prepare a new generation of leaders.

Hong Kong's situation, of course, is unique. It faces a transition on an already determined timetable over the next 11 years from British Crown Colony to part of China. It should work out, given the care with which it is being approached, but no matter how well-intentioned and sincere Beijing's plans, clearly things will be very different for Hong Kong after 1997.

Then there is Taiwan, an island “entity” whose long-term political future is equally uncertain, and which over the last 37 years has seen only the dynastic rule of two mainlanders, father and son. While President Chiang Ching-kuo has repeatedly denied any intent to groom his own son as a successor, many regard the question as still open whether the succession will be dynastic or will go to Vice President Li Teng-hui. Beyond that relatively narrow question, however, lie the shoals that could ultimately shipwreck stability on both sides of the Taiwan Strait. Will the ruling Kuomintang act to accord native Taiwanese full political opportunity, or will it remain, in effect, a vehicle for asserting the control of the transplanted mainlanders? And more pressing still, what form will Taipei's future relationship to Beijing take? Both are serious challenges; neither lends itself to facile resolution. Yet on their outcome, and Beijing's reaction to it, depends much of the future of the region.

VI

The challenges of political modernization and the varying Asian responses are cast in sharpest relief by comparing Korea and the Philippines. On paper, the parallels are remarkable.

Both countries have provided ample targets for human rights activists, who argue that Seoul should now learn a lesson from Manila's experience. To U.S. conservatives, both countries are treaty allies of the United States, with American troops and facilities on their soil. And both are threatened by communism.

But there the similarities end. Observers, especially those outside the region, must drop their ideological blinders and abandon their orthodox views of what constitutes political progress. Despite its political limitations, South Korea has a chance—with luck, enlightened leadership and the proper degree of external encouragement—to demonstrate a workable means of evolution as an authoritarian regime seeks to introduce controlled liberalization into its system. Politics in the Philippines, on the other hand, had been dangerously stuck until President Marcos made the miscalculation of his life and called for the February 1986 “snap elections.” The Philippines had a democratic system which had been destroyed, and which the opposition was seeking to restore; Korea has no such tradition, and will still have to evolve toward a viable system of government that can transcend individual rulers.

The next two years will be the most important for the Republic of Korea since the overthrow of Syngman Rhee in 1960. The way events play out will determine whether Korea is finally on its way to a measure of political development commensurate with its undeniable economic achievement, or is consigned, perhaps indefinitely, to a cyclical pattern of military-backed regimes separated by periods of political confusion and public chaos. The United States can play an important role (although far less explicitly than in the Philippines) in encouraging orderly evolution.

The Republic of Korea has never enjoyed a peaceful or orderly transfer of power. Its current president, Chun Doo Hwan, came to political power from the army after the murder of President Park Chung Hee by his own intelligence chief, Kim Jae Kyu. Chun has been criticized for the way in which he took power and for the limitations that still exist on free speech and free political association.

Yet things have changed substantially in Korea in recent years. An increasingly vigorous and vocal opposition functions, with government acceptance, within a National Assembly still controlled by Chun's Democratic Justice Party. Leading members of the opposition gradually have found many of the restrictions placed on them lessened, and although their activ-

ities are still tightly circumscribed they have been able to meet reporters, be quoted in the Korean press, and appear in public.

One such opposition figure, Kim Dae Jung, is still under strictures, including periodic bouts of house arrest, which threaten as of this writing to become more severe. But even as tensions rise again, and even if the opposition mounts demonstrations in the streets of Seoul, it is useful to recall how much Kim's treatment has eased in the last five years. In the closing months of 1980, most observers thought he would be executed; Kim's status instead underwent a gradual progression from Korean prison confinement to exile, and then to a disorderly but ultimately peaceful return. He and his fellow opposition leader, Kim Young Sam, have also shown a grudging but gradual recognition of the importance of cooperation in creating a less chaotic opposition.

President Chun's willingness to allow the return of Kim Dae Jung, whom many in the Korean military still regard as a dangerous subversive, was a welcome sign of greater maturity in Seoul. So too is President Chun's pledge not to seek a second presidential term when his current one expires in 1988. While some critics label this insincere, if Chun follows through he will have presided over Korea's first stable and systemic transfer of government—the sine qua non of a smoothly functioning political system. Such a move would be an important contribution to the political development of Korea, even if it fell short of the goals of some of Chun's opponents.

They seek more, of course; they want, variously, the full restoration of political rights to Kim Dae Jung and others similarly proscribed, the direct election of the president, or the early departure of Chun himself. But the pace and timing of these and other liberalization measures must be determined by Korean realities, not by comparisons to the miracle of Manila. Nor should outsiders take sides among Korean political rivals. American influence in the process between now and 1988 must be exercised with great skill and an absolutely clear-eyed understanding of the U.S. national interest. But the bottom line for those who care more about Korea than about their own political rhetoric is that South Korea has taken some significant strides forward, and these deserve support and encouragement.

Graduated change, even if too slow for some, is the most efficacious course for those who seek to encourage Korea's evolution into a fully mature political society over the remainder of this decade and beyond. Too much external pressure

for immediate change, no matter how well intentioned, could be counterproductive. If the Koreans themselves move in that direction, fine; but American influence should not be injected too deeply into the details of the political contest in Seoul.

In the wake of the February crisis in the Philippines, there was a tightening of pressure on the opposition in Seoul. Some Korean leaders, watching the energy unleashed by an election Ferdinand Marcos could not control, may have worried that similar tendencies in Korea be kept in check. Perhaps Seoul worried, as well, that the United States, which played such an important role in the Philippines, might be similarly inclined to put pressure on Chun's regime.

This fear, while perhaps appearing real to Seoul, is misplaced on several grounds. Korea is not the Philippines; Chun Doo Hwan is not Marcos; Korea's economy was advancing while that of the Philippines was collapsing—and the legacy of each country's relations with the United States is wholly different. Furthermore, the Reagan Administration is highly unlikely to adopt the same approach in Seoul that it followed in Manila.

While Marcos made his tenure open ended, Chun Doo Hwan has set a precise term for his own presidency. While Marcos dismantled existing mechanisms for the selection of a successor, Chun has offered a system. Indeed, the current tensions in Seoul are focused on the details of Chun's proposed system for selecting the next president in 1988, and on whether and when to move to a system of direct election of the president; they are not so much directed against Chun himself. That may seem small comfort, but it is a step forward for Korea, and a lesson that Marcos never understood.

If Korea provides an ambiguous but hopeful image, the Philippines until recently offered a dark contrast that illustrated the entire Asian dilemma. By suspending the constitution in 1972, President Marcos unintentionally demonstrated the true worth of political institutions and orderly mechanisms for transition. For all its imperfections—and they were legion—the Philippine democracy before 1972 was a functioning system. After that it had nothing but authority vested in a single man. As it turned out, contrary to the views of many observers, the Filipino people remembered and cherished the democratic values left behind as the American legacy.

Because in his early years Marcos showed himself to be a man of skill, courage and intelligence, his authority sustained the nation for fully half the independent life of the republic.

But even Marcos' brilliance could not reverse history or defeat the cruellest enemy stalking all personalist regimes: old age. He could not pass power on to his wife, who had come to personify greed and venality and was simply unacceptable to too many people; unlike Deng or Lee, he did not develop a second or third echelon of "future leaders," and unlike Chun, he did not set a timetable, no matter how remote, for relinquishing office.

VII

What can a leader concerned about his place in history do to enable his accomplishments to endure beyond his tenure? He could seek, in a controlled fashion, to create political safety valves capable of venting some of the more serious strains resulting from economic modernization. Political scientists assure us that especially in this volatile age, reform from within an existing system is the least risky means of opening up a government.

The attitude recently in vogue in some influential American political circles was to deny that such transitions in the developing world ever work to the advantage of the West. Indeed, some commentators have gone so far as to suggest that all transitions from right-wing authoritarian regimes end up benefiting only equally or more repressive extremist, and perhaps pro-Soviet, leftists. But this fatalistic attitude is both pointless and short on historical substantiation. It ignores Portugal's peaceful "revolution of flowers"; it overlooks the successful restoration of democracy in Spain by Generalissimo Francisco Franco's handpicked successor; and it shortchanges the most dramatic political developments in this hemisphere in the past decade: the revival of democracy in Brazil, Uruguay and Argentina. And now, most dramatically, it cannot account for the developments in the Philippines.

In each of the three Latin American nations, military elites have staged a careful, measured return to democracy. As went Brazil and Uruguay, so too perhaps will go Thailand, Korea and Indonesia. The army will not disappear as an important variable in the political equation of these societies in the foreseeable future. Too much tradition in all three, to say nothing of the undeniable security issue in Korea, makes total depoliticization of the military in the next decade both unrealistic and unlikely. Understandably, good democrats everywhere may lament this, as the removal of the military from politics is an important and well-established precursor of political maturity.

But if the real aim is to encourage and nurture more broadly based participation by everyone in the system, advocates of democracy may have to accept that a reduction of the military's role will be gradual, and will surely not take place overnight.

This brings us back once again to the Philippines, where a military with no traditional role in politics was shamefully politicized by a civilian president just when it should have been revitalized for the difficult battle with the communist New People's Army—so much so that its most professional general officer, Minister of Defense Juan Ponce Enrile, himself one of Marcos' oldest friends, finally broke rank.

A return to democracy in Manila was the first prerequisite to mounting an effective drive against the insurgents, and to rebuilding the flagging economy. Marcos would have done his nation far greater service if, instead of using all his waning powers to survive, he had announced his withdrawal from the presidency and allowed the restoration of a participatory and democratic form of government. Marcos' refusal to do this made it inevitable that he would be forced from office in humiliation.

The power of the idea of democracy in the Philippines turned out to be immense. Eventually, after its denial for over a decade, it spilled into the streets in a moving tableau of nuns and soldiers, of what is now called in Manila "people power." Thus, as it worked out, what happened in Manila was more—far more—than just the fall of Marcos. He was toppled not by a coup, although the army played an important role, but by the force of an idea. "You have changed the course of history," wrote Lee Kuan Yew to the new Philippine leadership, and it may be true. It remains to be seen what effect this will have on the Philippines' neighbors. Meanwhile, President Aquino faces the tough realities of the mess she inherited from Marcos, and will need massive American aid, as well as the understanding and support of the international banking system, if she is to succeed in turning her movement into a successful government.

This, then, raises the old question of how the United States should respond to democratic rumblings abroad. Past experience calls for taking a hard look at movements claiming to represent democratic progress; this nation has been badly burned in the past, most recently by the Nicaraguan Sandinistas, and another such experience might well have killed whatever enthusiasm was left in the American electorate for supporting expanded political participation overseas. But events

in the Philippines (and to a lesser extent, Haiti) may have shifted the balance back toward support in the United States for a more active involvement in promoting overseas political progress. Filipino crowds waving American flags in support of Corazon Aquino and democracy speak forcefully to the role the world hopes the United States will play.

Surely there are times when the United States must recognize and seize a historic opportunity. This calls, admittedly, for wit, agility and a willingness to take a risk. To fail to stand by democracy in the Philippines would have inflicted a gratuitous wound on the United States, without helping either American interests in Asia or the Philippines itself. To ignore completely movements for broader political participation in South Korea, Taiwan and elsewhere would be equally foolish, although this does not mean that we should conspire in, or wish for, the overthrow of present governments. Rather, the United States should be willing to voice its preference for wider popular involvement, and to make this stick by repetition and selective forms of encouragement.

VIII

So much for this whirlwind tour. Each of the nations touched on has its own complexities, of course, but all of the societies discussed share two critical traits: they have achieved considerable economic progress (the Philippines in recent years excepted), and they are approaching historic political transitions that are colored by uncertainty.

In this context, legislators and officials in Washington must be far more sensitive to the political consequences that could accrue from some of their recent domestically driven protectionist behavior. It is widely understood that American domestic pressures for protectionist legislation are growing, generated in large part by East Asia's economic success. But Washington should be concerned that, as some protectionists seek to reconcile the United States' perhaps justifiable complaints against Japan, they may in effect take a shotgun to the entire region. It would be a calamity were this wave of domestically generated economic isolationism to undercut the very political development the United States claims to be fostering, which the Asian economic success it has encouraged has done so much to promote. Anyone who knows the United States well knows that it is given to periodic fits of economic protectionism, and one can only hope that this latest alarm will be resisted, and

that common sense and generosity will prevail. Otherwise, our left hand could undo with discriminatory trade measures what our right hand has long sought to do with our overall economic, political and security policies in the Pacific.

Even in the absence of self-serving protectionism in the United States, declining rates of economic growth—perhaps temporary, perhaps not—cast an unsettling question mark over the future of the entire Pacific rim. Expanding economic opportunity in the past has helped to legitimize non-communist governments throughout the region and to smother potential social unrest in prosperity. Despite the much admired social self-discipline of East Asian countries, if living standards stagnate, governments there may face the need to use more overtly coercive methods to ensure domestic tranquility. Rapid increases in national wealth are an avenue to at least temporary social peace, but expanded political participation and confidence in governmental structures that can outlast individual leaders are necessary to sustain such stability. I do not attempt to cast myself as a new Cassandra crying out future doom. On the contrary; I remain an optimist about Asia. But I suggest, respectfully, that *now* is the time to set in motion or accelerate political adjustment, while conditions are still highly favorable and governments have not lost their room for maneuver.

At stake is nothing less than the future promise of the Pacific rim. Will the generation that succeeds us look back on our age as a brief, lost golden era? Will they envy the late twentieth century its prosperity, but curse its people's shortsightedness, their lack of nerve? Shall we in the United States and East Asia bequeath to them the same opportunities for economic growth that have granted millions a better life than their parents could ever have dreamed of? Or will the heritage of our age be one of decline, decay and disintegration? The answer will turn on the willingness of Asians to take the risks of political development, and of Americans to encourage and support the same. Upon the outcome of that challenge, much—perhaps all—will depend.

Ezra F. Vogel

PAX NIPPONICA?

Future historians may well mark the mid-1980s as the time when Japan surpassed the United States to become the world's dominant economic power. Japan achieved superior industrial competitiveness several years earlier, but by the mid-1980s its high-technology exports to the United States far exceeded imports, and annual trade surpluses approached \$50 billion a year. Meanwhile, America's trade deficits mushroomed to \$150 billion a year. By late 1985, Japan's international lending already exceeded \$640 billion, about ten percent more than America's, and it is growing rapidly. By 1986 the United States became the world's largest debtor nation and Japan surpassed the United States and Saudi Arabia to become the world's largest creditor.

In the past, the United States has been able to make up for its worldwide merchandise trade gap with trade in services, including interest payments. But as Japanese services expand worldwide and the United States begins paying out more interest than it receives, the United States suffers not only from a merchandise trade gap but a continuing current account trade deficit.

America's GNP may remain larger than Japan's well into the 1990s (depending on exchange rate measurements), but there are many reasons to believe that Japan will extend its lead as the world's dominant economic power in the years ahead.

II

Japan's growing economic power is solidly based in three crucial areas: the "new industrial revolution" in manufacturing technology, the concentration on the service sector, and the expansion of research and development activities.

The Japanese are poised to take the lead in the "new industrial revolution" that is bringing new microelectronic and laser controls to the production process. Electronic controls greatly

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reduce the need for production-line workers and increase the flexibility of manufacturing. Technologies for replacing broken tools and parts automatically, for instance, permit increasing numbers of robots and other tools to operate untended all hours of the day. Companies and countries that install such technologies ahead of others are likely to gain great competitive advantage in reducing costs.

Japan continues to introduce about as many industrial robots as the rest of the world combined, several times the rate of introduction in the United States; its dominance in numerically controlled machine tools is even greater than in robots. Although progress in introducing computer-controlled modules and flexible manufacturing systems is more difficult to measure, Japan continues to extend its substantial lead in these areas. Why is Japan doing so well in applying the new manufacturing technology? Automation requires detailed work by vast numbers of electrical engineers, and Japan turns out more such engineers than any Western country—about 50 percent more each year in absolute numbers than the United States. Furthermore, a far higher proportion of electrical engineering graduates go into manufacturing in Japan than in the United States.

Senior Japanese managers who personally took part in the introduction of basic technological changes that took several generations to install in industries in the West are more knowledgeable than Western managers about how to administer large-scale industrial change. Japanese workers have learned that they do not lose jobs with fundamental technical change, and that firms which introduce new technology quickly are the stronger for it. With lifetime employment, Japanese workers are not frightened by new technology and want innovations that will keep their companies strong in the future. Needless to say, the low cost of Japanese capital and the almost universal training in science and math among Japanese workers reinforce these advantages.

Although the growth in Japanese productivity began to slow down in the 1970s, the introduction of increased automation in the 1980s allowed the pace to pick up, and Japan's rate of productivity increase in manufacturing now far exceeds that of other industrialized countries.

In the mid-1970s, the Japanese began targeting the service sector, along with high technology, as the most promising growth area. They have started concentrating financial re-

sources and talents into services with the same systematic determination that they once applied to manufacturing. Rapid expansion can be seen in areas like fashion, movies, television programming, publishing, consulting, real estate, design, construction, leisure, tourism, advertising, insurance and finance. Domestic companies in these sectors are already sufficiently established that exports are beginning to grow rapidly.

Expansion in the service sector is facilitated by the rapid accumulation of capital and by technological breakthroughs, particularly the new Japanese word processor, which makes possible for the first time the widespread capacity to type in phonetic syllables and achieve outputs of Chinese characters. The unrivaled information networks of the world's six largest general trading companies, all of them Japanese, greatly assist worldwide expansion in the service sector. The continued growth of Japanese manufacturing companies will pull along their affiliates in the service sector because of the tight linkages between Japanese companies. Universal and high-quality training in math and science provide ample skilled manpower for the service sector, and governmental efforts to standardize communication networks will in the future provide a sound basis for the growth of service-sector companies.

Finally, the Japanese are rapidly expanding their research and development efforts to stimulate technical progress with commercial applications. The proportion of GNP devoted to R&D will virtually double this decade, rising from two percent of GNP in 1980 to an expected 3.5 percent by 1990. The United States has stabilized R&D expenses at about 2.7 percent of GNP. However, if military research is excluded, Japan is already devoting about as many man-hours to R&D as the United States and will soon be spending about as much for it. If present trends continue, Japan will take the lead in non-military R&D spending by the early 1990s.

Just as Japan built state-of-the-art industrial plants in the 1960s while America maintained its stock of older facilities, so Japan is now building state-of-the-art R&D facilities while America maintains many older laboratories. Most Japanese research is done in large companies that use the new technology for their own manufacturing. Much of America's R&D, by contrast, is done in small, innovative companies that sell their technology to others, including the Japanese. American R&D is more accessible to Japan than Japanese R&D is to the United States, since much of it is done in open universities as well as these small

companies, and since Japanese scientists can easily follow American R&D literature. Japanese government aid to research is significant not so much for its magnitude as for its capacity to ensure that the nation adapts quickly to promising leads and fosters cooperation and specialization among firms to make better use of national resources.

What are the implications of these successes for the global political balance? Will Japan use its economic dominance in world affairs to become a military superpower?

III

After World War II Japanese leaders, convinced that they could not continue to enrich their country through military expansion, began single-mindedly devoting their energies toward economic competitiveness. Like the Venetians and Dutch in their heydays, the Japanese conceived a vision of economic power without military power; their subsequent economic success has not altered this vision. They hope that nuclear weapons have rendered all-out warfare untenable and that, unlike seventeenth-century Holland, they will not suffer for their modest level of military preparedness.

Japanese believe their national welfare has profited by placing priority on economic affairs, and that a greatly expanded military would detract from the willingness of trading partners to welcome their businessmen and their products. They see no need to change their American-imposed "peace" constitution, which prevents them from sending troops or selling arms abroad. Living in the world's most densely industrialized territory, Japanese consider themselves uniquely vulnerable to nuclear attacks and are convinced that possession of nuclear weapons would increase their vulnerability.

Many Americans believe that Japan enjoys a "free ride," taking commercial advantage of opportunities provided by a stable world maintained largely at American expense. Japanese, however, argue that they pay for their own military defense and contribute substantially to America's forces in Japan, thus freeing the United States to concentrate its energies elsewhere. They believe that Americans spend excessively on defense because they exaggerate the Soviet threat and that they are unnecessarily provocative. For all their dislike of the Soviet Union, Japanese believe that if they remain firm in negotiations, avoid provocations and modestly increase military prep-

arations, the risks of conflict can be reduced. They do not believe that the more they arm the safer they are.

Although worried about being drawn into conflicts through excessively intimate ties to a belligerent United States, most Japanese believe it is in their interest to maintain the military alliance with the United States. Many scientists and engineers would prefer an independent science and technology policy and fear the constraints that Americans might impose on defense technology developed jointly, but some are ready to cooperate with the United States in weapons development, especially if it opens doors to new American defense technology.

In any case, Japanese are unlikely to spend as much as two percent of their GNP for defense by the year 2000, but they are prepared to increase their contributions to maintain world security as Americans feel less able to afford the expense. They will, of course, use their contributions to gain leverage to represent their own interests. They are already the world's seventh-largest military power, with highly sophisticated weaponry, and their military power will grow. But at least for this century, Japan will in the military sphere accept a Pax Americana, perhaps eventually growing into a Pax Americana-Nipponica.

IV

As an alternative to military power, internationally minded Japanese have begun to envision their country becoming a world leader by assisting the southern tier of developing countries and championing their cause in international meetings. Japanese economists have argued in influential Japanese journals that Japan should rapidly increase its "contributions to the world public good." Cosmopolitan journalists, aware that the world has criticized the lack of Japanese contributions to Vietnamese refugees, have worked to dramatize the problems of African hunger and Mexican earthquake recovery so as to increase private as well as public Japanese aid. Some ordinary Japanese citizens who lived as youths in China, Korea and Taiwan during the Japanese occupation have worked to establish person-to-person relations with people of these countries. Idealistic young technicians have volunteered for a Japanese version of the Peace Corps. Development planners are guiding the planning and construction of modern facilities in China and Indonesia. Political leaders, aware of international pres-

asures for Japan to uphold its fair share of world burdens, have argued for an expansion of Japan's role in these areas rather than in military affairs. And they realize this can only be achieved with the cooperation of their closest and most important ally, the United States. Japan is now beginning to increase rapidly its aid contributions.

Japan has considerable resources, aside from capital, to play such a role. Japanese bureaucrats bring great skills in careful planning, long-term continuity, integrity and enforcement of high standards of job performance. Japanese trading companies have the capacity to put together international development projects on a commercial basis. Japanese are ready to send corps of specialists abroad to take part in these projects.

Japan has consistently lagged behind other industrialized countries in the proportion of GNP devoted to international aid efforts. Despite the intentions of many idealists, elemental nationalism that has resisted aid-giving abroad, especially outside Asia, has proved to be much more powerful. As individuals, Japanese have unsurpassed capacity for hospitality, but as a nation Japan has tended to pursue its own narrow interests. At least until now, in battles within Japan between nationalists and internationalists, power has tended to gravitate to the former. The highest Japanese leadership regularly makes commitments of aid on the occasion of foreign state visits. Although officially strings are no longer attached, terms are generally not attractive, feasibility studies often lead to delays or postponements, and locals often feel compelled to purchase products from Japanese companies attempting to expand local markets. Some cynics have charged that Japanese foreign aid is given less from genuine human compassion for the needy than from a desire not to appear overly selfish compared to other countries.

Moreover, anti-Japanese sentiments remain strong in Asian countries and are emerging in other developing countries. In part this is the inevitable remnant of World War II and the result of envy. But it is also fueled by the perceived arrogance, exclusiveness and discrimination of Japanese toward others at home and abroad, and by questions about promises made to gain contracts and hidden problems that later emerge to increase costs to the purchaser. Expression of such sentiments is muted by foreign leaders who want Japanese technical and financial assistance, but it is a powerful force that has explosive potential.

At some point, foreign pressure for Japan to assume a larger burden, and growing Japanese sympathy for the plight of the Third World poor, may lead to a further speed-up of aid even beyond the substantial increases already projected. Prime Minister Yasuhiro Nakasone has already outlined a vision of 100,000 foreign students studying in Japan by the year 2000, and comparably bold plans are being enunciated by prominent Japanese to assist foreign nations. Many Japanese educators realize that they must do a great deal more to open their educational and research institutions and technology to foreigners.

Recently, Japan has shown a remarkable ability to forge a consensus on new public issues such as pollution and social welfare, evidence that in Japan a fundamental sea change can occur in a short time. It is therefore possible that, before the end of the century, Japan will undergo a similar sea change in its commitment to international aid programs and its receptivity to foreigners in Japanese society. If so, it is likely to be generated from Japan's own initiatives. Although cosmopolitan Japanese are prepared to cooperate with other donors in foreign aid, many officials and much of the public believe Japan is now strong enough that it does not need to ingratiate itself with the United States by aid-giving in the pursuit of strategic interests defined by U.S. priorities and objectives.

For the foreseeable future Japan is likely to make steady and sizable incremental increases in foreign aid. In a country where consensus is important and must involve many groups, a pattern of consistent incremental increases of aid, like military spending, is easiest to manage. Given rapid Japanese economic growth, these increases in foreign aid may be large enough to make Japan the largest single aid donor by the mid-1990s and to permit a number of significant new initiatives. These will not be large enough in this century to embrace worldwide development efforts in a Pax Nipponica.

v

Until now the Japanese have not had a clear vision of a new world trade order. They have essentially accepted existing international institutions and learned how to promote their national interests within that framework. They are not yet sufficiently comfortable with their newfound economic success to consider reshaping the international trade order.

However, for the first time since 1853, when Admiral Mat-

threw Perry forced the opening of Japan's ports to foreign trade, the Japanese feel strong enough to achieve their long-cherished patriotic dream: to resist—with all due politeness—foreign pressures to accept arrangements that give advantages to other countries. Through long decades of subservience to the United States, the Japanese have learned how to develop and use whatever leverage they have to achieve their goals. They have learned how to delay and postpone while being polite, yielding only when all other choices seem absolutely exhausted. They are prepared to make pragmatic adjustments where necessary, but the prevailing consensus is that they should yield to American pressures on trade as little as possible.

In the Japanese view, America's wants and demands are endless. Any concession leads to endless demands by U.S. congressmen and other groups for more. It follows that the best way to respond to American pressure is to lengthen and complicate the solution of any problem, to find ways to slow down implementation while maintaining an overall friendly climate.

Underlying Japanese attitudes on international trade is the conviction that it is in their interest to produce goods for their own consumption and for export, and to buy as few manufactured foreign goods as possible. Many Japanese now have confidence in Japan's ability to buy needed resources and imports, but policies and attitudes are still conditioned by the desperation they felt in the wake of World War II shortages and the 1973 oil shock. Japanese leaders can conceive of future emergencies caused by difficulty in importing needed resources or loss of competitiveness in international markets to newly industrializing countries. It follows that they must continue their neomercantilist policies of manufacturing as much as possible at home and importing only a minimum of manufactured goods from abroad. Most foreign specialists are convinced that Japanese efforts at "import promotion" do not yet represent a fundamental change in attitude but are more an effort to persuade foreigners that Japanese markets are already open.

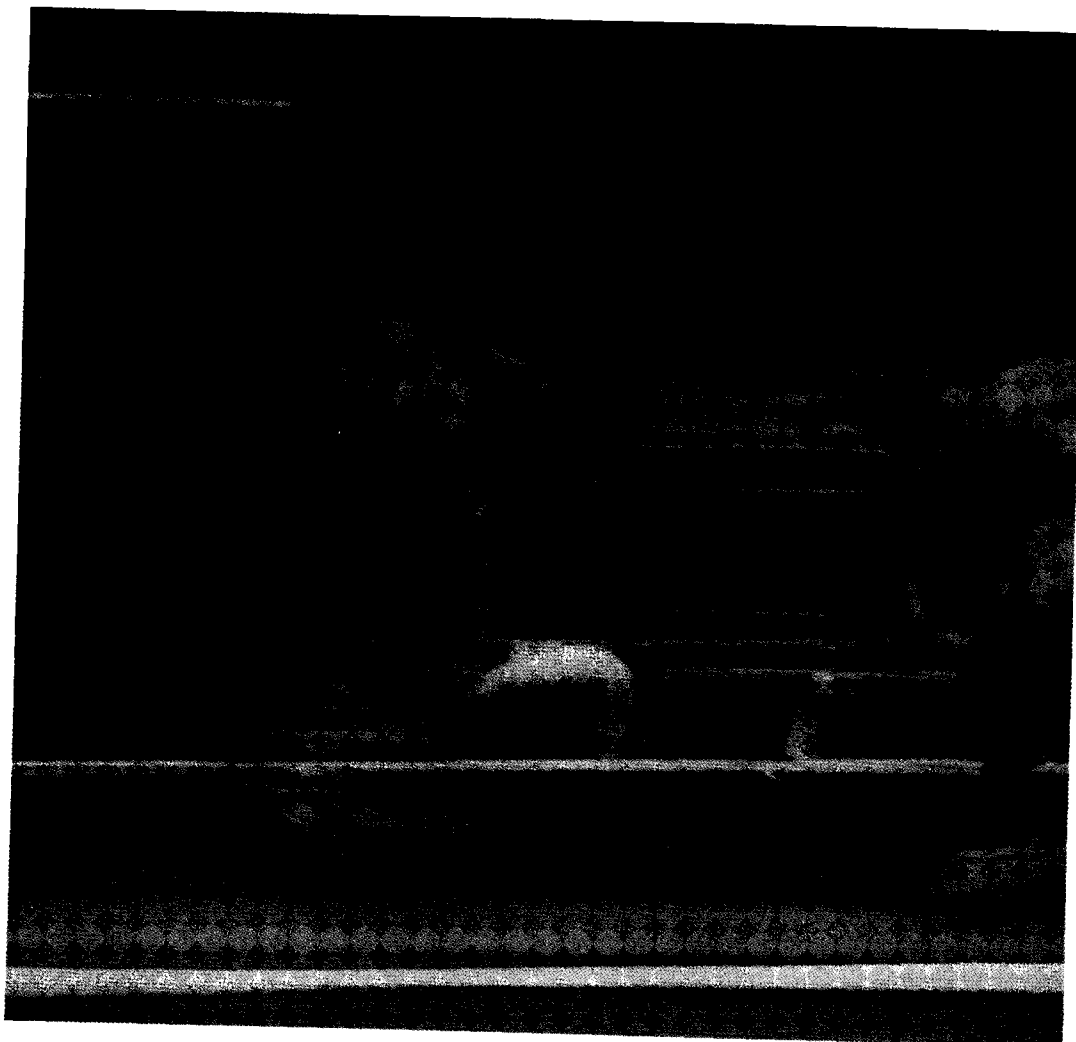
Japan's neomercantilist policies after World War II centered on export promotion to acquire needed resources. Knowledgeable Japanese are proud that they developed their own unique strategy, but they bristle at the charge that it was unfair. Why should Europe and the United States presume to set the standards of what is fair and unfair in world markets? In their view

Japan has, by and large, followed international laws and won in international economic competition by producing higher-quality goods at better prices. Other countries have controlled imports in pursuit of national goals—why should Japan be singled out because it has done so more successfully? If anything, Japanese believe they have learned the rules as played by the West, and have beaten the West at its own game.

In the early decades after World War II, Japan became accustomed to protecting infant industries and nursing them to international competitive standards. Only when there was virtually no danger of foreign products competing successfully in their home markets would they slowly and reluctantly reduce formal tariff barriers. They made it virtually impossible until the 1970s for foreigners to own their own subsidiaries in Japan or to have even indirect economic control over firms in Japan. They established vertical linkages between companies that made it very difficult for foreign companies to penetrate Japanese markets even when foreign products had competitive advantages. Japanese officials found ways to slow down the approval process for competitive foreign products. Japanese industrial-sector associations found ways to work with officials in setting standards, allowing fees for pharmaceutical and medical products, restricting procurement of foreign products and delaying the entry of such goods until domestic makers could make competitive products.

Despite *tatemae* (general statements of principle) and the growing conviction of some Japanese leaders that these practices must go, Japanese economic power is sufficiently decentralized that it is largely in the hands of working-level professionals, many of whom still believe that these practices remain in Japan's interest.

Most American trade officials see their responsibility as keeping a "level playing field." But Japanese trade officials are the same ones who are responsible for maintaining the competitive success of Japanese products in their jurisdiction. They therefore fight to protect areas where they are not competitive, e.g., soda ash, timber, agricultural products, telecommunications, medical instruments and pharmaceuticals. The Japanese government enjoys a great continuity of bureaucrats who see their responsibility not as keeping the playing field level but as achieving and maintaining the market superiority of their products and restraining foreign imports while maintaining an appearance of fairness.



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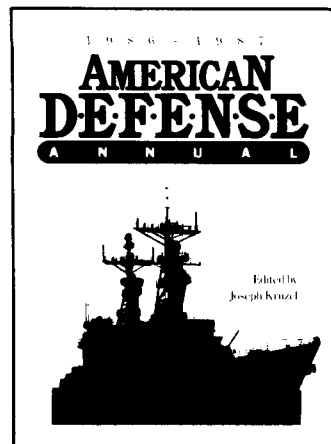
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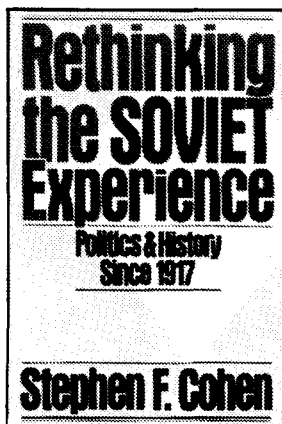
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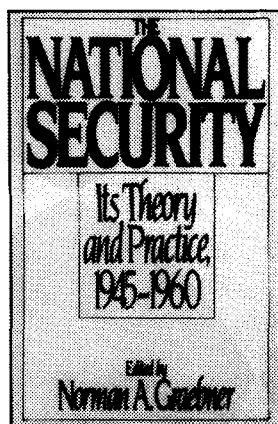
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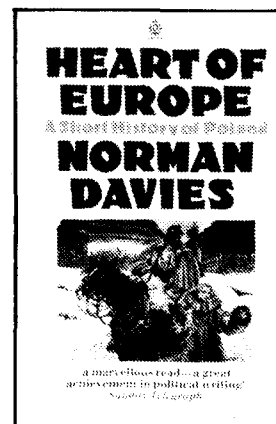
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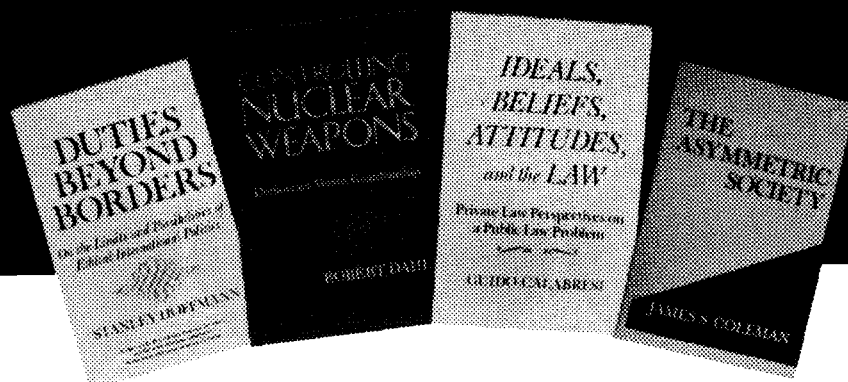
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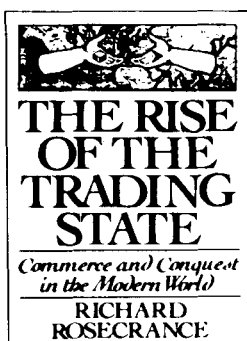
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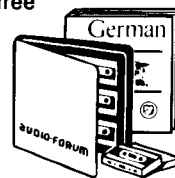
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Many formal barriers to trade have been removed, and many Japanese genuinely believe that they are as open to competitive foreign trade as other powers. They believe that they have fewer tariffs than most other nations, and that the ones they do have are among the world's lowest. In their view the European Economic Community has more barriers than Japan; even the United States has far more barriers than most Americans know about, including various state regulations that make importing difficult. Many Japanese are convinced that if all tariff and non-tariff barriers in Japan and the United States were lowered, the trade imbalance with the United States would actually increase. They believe that if voluntary restraints on textiles, televisions, cars, semiconductors and other products were lifted, they would have far greater sales to the United States, but that even if all restraints on foreign products were lifted in Japan, few American products would be able to compete successfully in the Japanese market.

The Japanese worry about American protectionism, but they sense that American moods go in cycles, and they therefore adopt strategies to overcome temporary American outbursts. Observing congressional voting proclivities with great care, they are convinced that Congress will have great difficulty uniting to impose any serious protectionist measures that Japanese businessmen cannot get around. They also see strong American pressures against protectionism: the consumer movement; the interest of the American defense establishment in purchasing goods around the world; the desire of American leaders to maintain goodwill, not only with Japan but with the rest of the world; the desire of economists who want to keep world markets open; the concern of certain American businessmen to protect their niche in the Japanese market, however small, or their marketing of Japanese-made products.

To represent their interests within congressional and administration circles in Washington, Japanese hire former high American government officials of both parties as lawyers, consultants and public relations specialists. They send and receive goodwill missions. Prime ministers make speeches urging Japanese to buy foreign goods, which frank Japanese acknowledge may be aimed more at foreign than domestic audiences. Japanese bureaucrats in JETRO (the Japan External Trade Organization) help arrange "import fairs" of boutique goods, food products and other goods that have at best minor significance

in the trade balance. New trade packages and concessions are announced, often timed to forestall American actions.

Now that the Japanese have achieved what they consider superior economic performance, ardent nationalists are prepared to explain to foreigners that if they want to succeed in Japan they must work harder, improve their products, their prices, their commitment to the market, their after-sale service. And even government officials who act with diplomatic restraint are now proud that Japan is strong enough to resist endless rounds of pressures.

Lacking a vision for a new world trade regime, Japanese are still uncomfortable thinking of themselves as the dominant economic power, let alone as capable of imposing a Pax Nipponica over world trade. But the combination of their superior competitiveness, their dominance in financial circles as the world's leading creditor, their superior information network, and the dependence of others on Japanese products and technology creates great de facto power. This power will enable Japan to dominate world trade and use its power, as it has in the past, to serve its national interests and enhance the well-being and economic security of its people.

VI

Japanese, by habit and design, are reluctant to call world attention to the full scope of their international economic success. Americans and Europeans understandably find it difficult to acknowledge the extent to which their global economic power has declined at the expense of their competitor in East Asia. The international problems that arise from increasing Japanese economic power have therefore not received the attention they deserve. Let us enumerate some of the problems that the rise of Japan poses for the United States.

Can the United States stem its relative economic decline? A careful analysis of Japan's competitive advantages suggests that the problem is far deeper and requires a far more concerted effort than most Americans realize. Public discussion of these issues has unfortunately been dominated by economists who take far too narrow a view of the problems and think chiefly in terms of exchange rates, interest rates and savings rates. The problems are much larger. Japanese managers have access to lower rates of capital and a less costly, more committed and better trained work force. For example, over 94 percent of Japanese complete high school compared to less than 80 percent in the

United States, and Japanese students have much higher average math and science scores than their American counterparts.

Japanese government and private business collaboration makes it very easy to move flexibly in concentrating national resources on important, commercially relevant research and development. Japanese business makes constant surveys of manpower needs. Cooperation between government and business makes for more rapid adaptation to changing training requirements.

The Japanese government's neomercantilist policies help keep savings rates high, the cost of capital low, the commercialization of new inventions rapid, and trade barriers in line with national strategy. Cooperation between government and business and the relatively low reliance on regulation and unpredictable litigation reduce investment risks. Retraining and incentive programs provide new job opportunities for those displaced by a changing economic structure, thus helping to maintain a social fabric in which the overwhelming majority of people identify with and share national goals.

It is clear that a commitment to focus on these areas is desirable for achieving American foreign policy objectives, as well as for improving American welfare. It is not yet clear that America has the political will to overcome the decades of complacency that stemmed from the unique period following World War II, when, as the only major power not severely damaged, it could succeed economically without special efforts.

Can U.S. and Japanese macroeconomic policies solve the trade imbalance? Western economists hope the trade gap might be substantially narrowed by the appreciation of the yen, but past experience is not encouraging. Since 1971, when the exchange rate was 360 yen to the dollar, every time the yen appreciated significantly, American trade balances maintained a temporary plateau but did not significantly improve. Japanese firms simply restrained price increases to retain their share of the market. Then, as Japanese firms gained further productivity advantages, their market share again increased. Once manufacturing plants and skills moved to Japan and the newly industrialized countries, the depreciation of the dollar did not lead to a substantial return of manufacturing to the United States. Exchange rate adjustment, in short, is an adjustment to superior Japanese improvements in productivity, and does not solve the problem of continuing American economic decline.

Some Western economists note the disparity between Japa-

nese and Western savings rates and believe the problem could be solved if the Japanese would stop sacrificing and spend more. They vastly underestimate Japanese consumption and naïvely hope that more Japanese consumption would increase Japanese imports or at least restrain Japanese exports. But the "sacrifice" of Japanese consumers, except for the problem of housing in metropolitan areas, is a myth. The Japanese have gained far more improvements in living standards in recent years than the citizens of any Western country. Although not yet caught up with the most advanced Western countries in housing space, indoor plumbing and car ownership per capita, Japan's general consumption levels have already surpassed West European levels.

Given its population density and excellent rail transport, the number of automobiles in Japan may already have reached an optimum. In personal electronics and cameras, specialized clothing and many luxury items, Japan has already surpassed the United States in per capita consumption. Japanese spend far more on weddings and other ceremonies and more than twice as much on tourism per capita than Americans. Even in housing, during the 1970s and 1980s the Japanese made about 50 percent more housing starts per capita than Americans. Even affluent Japanese do not wish large entertaining space at home, preferring to use hotels, restaurants and special centers where facilities far surpass those in the West.

In sum, Japanese consumers do not feel they are sacrificing, and if they were to spend still more there is no indication they would buy significantly more foreign products. Nor will the Japanese government greatly stimulate further spending, since Japan has a large budget deficit and Japanese leaders have formed a powerful consensus that long-term national prosperity requires putting a cap on government spending. In short, Japanese trade surpluses with the United States are not likely to be resolved by changes in the exchange rate or by changes in Japanese macroeconomic policy. The reasons for Japanese economic success are much deeper.

Can the United States encourage the Japanese to make it easier for foreign companies to operate in Japan? The pressure on Japanese to open their markets further has had considerable impact since the mid-1960s, but over the last several years the improvement has been modest at best. Part of the problem is that the behavior of sectoral associations and the vertical connections between firms make it difficult for foreign firms to

penetrate. The complexity of trade issues leaves great opportunities for loopholes for those who do not consider it in their interest to open the market more thoroughly.

Although specialists disagree on how much difference it would make to the trade balance if Japanese markets were thoroughly open, it is generally agreed that American exports to Japan might initially increase only several billion dollars a year. However, decisions by American firms to locate in Japan, to build up their staff and presence there, would give them a base for further expansion; they would be ready to take advantage of new opportunities that would undoubtedly have a much larger effect in the long run. Furthermore, the opportunity of foreign companies to achieve economies of scale by selling in both the large Japanese and American markets would improve their long-run competitive positions in many products, even if it did not have a large immediate impact. Clearly, American firms should be playing a larger role in the Japanese market.

The export of American manufactured products to Japan has, in fact, increased in recent years. A further opening of the Japanese market would have a very important long-range political significance. When Japan was weak, other countries were willing to tolerate considerable protectionism in the Japanese market. Now that Japan is stronger, political antagonism not only strengthens anti-Japanese feelings but strengthens protectionist pressures in the United States and elsewhere. Given these pressures, which are rooted in real economic adjustment difficulties and compounded by a sense of unfairness on the part of the Japanese, it is unlikely that the White House and the State Department can contain the political pressures for long. Perhaps a greater danger than an American administration implementing or supporting restrictive trade legislation is the danger of emotional outbursts in Congress and elsewhere that would trigger similar emotional reactions in Japan. The challenge for an American administration is to press Japan with sufficient vigor to reduce such outbursts, while containing pressures for more sweeping protectionism.

It is unlikely that Japan will open its markets significantly without American pressure to require it as a condition for continued access to important parts of its own domestic economy. Some thoughtful internationalists in Washington and Tokyo have suggested that it would be useful for Tokyo to undergo a consensus-building process of developing a new open-market strategy, much as it developed a new consensus

after the first oil shock of 1973. But given current Japanese attitudes, such a consensus-building process is unlikely to bring about major change unless there is an urgent worry about Washington's capacity to deny significant market access without a substantial expansion of foreign access to Japan's market. The question for Washington is how to stimulate this consensus-building while avoiding the dangers of protectionism. Given all the problems of inspection and regulation, perhaps some arrangements specifying total amounts or market shares in certain key sectors in exchange for comparable shares in the Japanese market are the most promising. Indeed, confronted with possible American legal action in the case of alleged dumping of semiconductors, the Japanese have proposed just such a solution.

How would an economically dominant Japan reorder the international trade regime and how might America best adapt? Given the ability of certain large Japanese companies to invest in excess capacity and engage in forward pricing to increase market share, in strategically important products it will be difficult for medium-sized foreign companies concerned with near-term profits to avoid being wiped out. In critically important areas like steel, ships, cars and semiconductors, therefore, Japanese market advances may be limited only by de facto cartel arrangements that set limits on market share. In effect, this is what the United States has asked Japan to enforce through voluntary restraint agreements in sectors like textiles, television sets, steel and cars. Within Japan, the government and sectoral associations have been able to manage cartel-like arrangements that restrain the largest companies and strengthen the advancing companies so as to maintain competitive pressures and protect the consumer. Being accustomed to such arrangements at home that limit market share and specify specialization and location, Japanese, despite natural desires to expand international market shares wherever possible, would not find it difficult to agree to international cartel-like arrangements in many products.

VII

The issue for the future international trade regime is not likely to be free markets or protectionism, but the nature of a mix that provides some cushioning for a nation's industries and populations against sudden disruption, while encouraging international trade and providing opportunities for developing

countries to expand their manufacturing exports. It may well be that the multi-fiber arrangements which set limits on national textile exports, with all their difficulties, provide a more accurate and feasible vision of the shape of international trade than the American vision of an open and level playing field. The question is how to create agreements with sufficient flexibility to allow newly emerging countries to increase their share gradually and to maintain the benefits of competitive market pressures. Given the declining competitiveness of American business and the political pressures from U.S. business, labor and Congress, America may have no choice but to work toward such agreements. It is in this sense—the capacity of Japanese competitiveness to dictate such a solution—that the international trade regime may well be moving toward a Pax Nipponica.

The prospects for the next few years, therefore, are for a pattern of limited and uneven Pax Nipponica, led by a country of modest military strength, of limited ability to attract a foreign following and to give foreign aid, but of great economic leverage. It is surely in the interests of Japan, as well as the United States and Europe, to work toward the expansion of partnerships and multilateral intertwining in the Pacific basin and elsewhere. In the foreseeable future, no matter how extensive this intertwining, the economic leverage of Japan, the world's most competitive economic power and biggest creditor, is likely to grow and to be used in pursuit of neomercantilist objectives.

Peter F. Drucker

THE CHANGED WORLD ECONOMY

The talk today is of the “changing world economy.” I wish to argue that the world economy is not “changing”; it has *already changed*—in its foundations and in its structure—and in all probability the change is irreversible.

Within the last decade or so, three fundamental changes have occurred in the very fabric of the world economy:

- The primary-products economy has come “uncoupled” from the industrial economy.
- In the industrial economy itself, production has come “uncoupled” from employment.
- Capital movements rather than trade (in both goods and services) have become the driving force of the world economy. The two have not quite come uncoupled, but the link has become loose, and worse, unpredictable.

These changes are permanent rather than cyclical. We may never understand what caused them—the causes of economic change are rarely simple. It may be a long time before economic theorists accept that there have been fundamental changes, and longer still before they adapt their theories to account for them. Above all, they will surely be most reluctant to accept that it is the world economy in control, rather than the macroeconomics of the nation-state on which most economic theory still exclusively focuses. Yet this is the clear lesson of the success stories of the last 20 years—of Japan and South Korea; of West Germany (actually a more impressive though far less flamboyant example than Japan); and of the one great success within the United States, the turnaround and rapid rise of an industrial New England, which only 20 years ago was widely considered moribund.

Practitioners, whether in government or in business, cannot wait until there is a new theory. They have to act. And their actions will be more likely to succeed the more they are based on the new realities of a changed world economy.

Peter F. Drucker is Clarke Professor of Social Science and Management at the Claremont Graduate School, California. His forthcoming book, *Frontiers of Management*, will be published this summer.

II

First, consider the primary-products economy. The collapse of non-oil commodity prices began in 1977 and has continued, interrupted only once (right after the 1979 petroleum panic), by a speculative burst that lasted less than six months; it was followed by the fastest drop in commodity prices ever registered. By early 1986 raw material prices were at their lowest levels in recorded history in relation to the prices of manufactured goods and services—in general as low as at the depths of the Great Depression, and in some cases (e.g., lead and copper) lower than their 1932 levels.¹

This collapse of prices and the slowdown of demand stand in startling contrast to what had been confidently predicted. Ten years ago the Club of Rome declared that desperate shortages for *all* raw materials were an absolute certainty by the year 1985. In 1980 the Carter Administration's *Global 2000 Report to the President: Entering the Twenty-First Century* concluded that world demand for food would increase steadily for at least 20 years; that worldwide food production would fall except in developed countries; and that real food prices would double. This forecast helps to explain why American farmers bought up all available farmland, thus loading on themselves the debt burden that now so threatens them.

Contrary to all these expectations, global agricultural output actually rose almost one-third between 1972 and 1985 to reach an all-time high. It rose the fastest in less-developed countries. Similarly, production of practically all forest products, metals and minerals has gone up between 20 and 35 percent in the last ten years—again with the greatest increases in less-developed countries. There is not the slightest reason to believe that the growth rates will slacken, despite the collapse of commodity prices. Indeed, as far as farm products are concerned, the biggest increase—at an almost exponential rate of growth—may still be ahead.²

Perhaps even more amazing than the contrast between such predictions and what has happened is that the collapse in the

¹ When the price of petroleum dropped to \$15 a barrel in February 1986, it was actually below its 1933 price (adjusted for the change in the purchasing power of the dollar). It was still, however, substantially higher than its all-time low in 1972–73, which in 1986 dollars amounted to \$7–\$8 a barrel.

² On this see two quite different discussions by Dennis Avery, "U.S. Farm Dilemma: The Global Bad News Is Wrong," *Science*, Oct. 25, 1985; and Barbara Insel, "A World Awash in Grain," *Foreign Affairs*, Spring 1985.

raw materials economy seems to have had almost no impact on the world industrial economy. If there was one thing considered “proven” beyond doubt in business cycle theory, it is that a sharp and prolonged drop in raw material prices inevitably, and within 18 to 30 months, brings on a worldwide depression in the industrial economy.³ While the industrial economy of the world today is not “normal” by any definition of the term, it is surely not in a depression. Indeed, industrial production in the developed non-communist countries has continued to grow steadily, albeit at a somewhat slower rate in Western Europe.

Of course, a depression in the industrial economy may only have been postponed and may still be triggered by a banking crisis caused by massive defaults on the part of commodity-producing debtors, whether in the Third World or in Iowa. But for almost ten years the industrial world has run along as though there were no raw material crisis at all. The only explanation is that for the developed countries—excepting only the Soviet Union—the primary-products sector has become marginal where before it had always been central.

In the late 1920s, before the Great Depression, farmers still constituted nearly one-third of the U.S. population and farm income accounted for almost a quarter of the gross national product. Today they account for less than five percent of population and even less of GNP. Even adding the contribution that foreign raw material and farm producers make to the American economy through their purchases of American industrial goods, the total contribution of the raw material and food producing economies of the world to the American GNP is, at most, one-eighth. In most other developed countries, the share of the raw materials sector is even lower. Only in the Soviet Union is the farm still a major employer, with almost a quarter of the labor force working on the land.

The raw material economy has thus come uncoupled from the industrial economy. This is a major structural change in the world economy, with tremendous implications for economic and social policy as well as economic theory, in developed and developing countries alike.

For example, if the ratio between the prices of manufactured

³ The business cycle theory was developed just before World War I by the Russian mathematical economist, Nikolai Kondratieff, who made comprehensive studies of raw material price cycles and their impacts all the way back to 1797.

goods and the prices of non-oil primary products (that is, foods, forest products, metals and minerals) had been the same in 1985 as it had been in 1973, the 1985 U.S. trade deficit might have been a full one-third less—\$100 billion as against an actual \$150 billion. Even the U.S. trade deficit with Japan might have been almost one-third lower, some \$35 billion as against \$50 billion. American farm exports would have bought almost twice as much. And industrial exports to a major U.S. customer, Latin America, would have held; their near-collapse alone accounts for a full one-sixth of the deterioration in U.S. foreign trade over the past five years. If primary-product prices had not collapsed, America's balance of payments might even have shown a substantial surplus.

Conversely, Japan's trade surplus with the world might have been a full 20 percent lower. And Brazil in the last few years would have had an export surplus almost 50 percent higher than its current level. Brazil would then have had little difficulty meeting the interest on its foreign debt and would not have had to endanger its economic growth by drastically curtailing imports as it did. Altogether, if raw material prices in relationship to manufactured goods prices had remained at the 1973 or even the 1979 level, there would be no crisis for most debtor countries, especially in Latin America.⁴

III

What accounts for this change?

Demand for food has actually grown almost as fast as the Club of Rome and the *Global 2000 Report* anticipated. But the supply has grown much faster; it not only has kept pace with population growth, it has steadily outrun it. One cause of this, paradoxically, is surely the fear of worldwide food shortages, if not world famine, which resulted in tremendous efforts to increase food output. The United States led the parade with a farm policy of subsidizing increased food production. The European Economic Community followed suit, and even more successfully. The greatest increases, both in absolute and in relative terms, however, have been in developing countries: in India, in post-Mao China and in the rice-growing countries of Southeast Asia.

⁴ These conclusions are based on static analysis, which presumes that which products are bought and sold is not affected by changes in price. This is of course unrealistic, but the flaw should not materially affect the conclusions.

And there is also the tremendous cut in waste. In the 1950s, up to 80 percent of the grain harvest of India fed rats and insects rather than human beings. Today in most parts of India the wastage is down to 20 percent. This is largely the result of unspectacular but effective “infrastructure innovations” such as small concrete storage bins, insecticides and three-wheeled motorized carts that take the harvest straight to a processing plant instead of letting it sit in the open for weeks.

It is not fanciful to expect that the true “revolution” on the farm is still ahead. Vast tracts of land that hitherto were practically barren are being made fertile, either through new methods of cultivation or through adding trace minerals to the soil. The sour clays of the Brazilian highlands or the aluminum-contaminated soils of neighboring Peru, for example, which never produced anything before, now produce substantial quantities of high-quality rice. Even greater advances have been registered in biotechnology, both in preventing diseases of plants and animals and in increasing yields.

In other words, just as the population growth of the world is slowing down quite dramatically in many regions, food production is likely to increase sharply.

Import markets for food have all but disappeared. As a result of its agricultural drive, Western Europe has become a substantial food exporter plagued increasingly by unsalable surpluses of all kinds of foods, from dairy products to wine, from wheat to beef. China, some observers predict, will have become a food exporter by the year 2000. India is about at that stage, especially with wheat and coarse grains. Of all major non-communist countries only Japan is still a substantial food importer, buying abroad about one-third of its food needs. Today most of this comes from the United States. Within five or ten years, however, South Korea, Thailand and Indonesia—low-cost producers that are fast increasing food output—are likely to try to become Japan’s major suppliers.

The only remaining major food buyer on the world market may then be the Soviet Union—and its food needs are likely to grow.⁵ However, the food surpluses in the world are so large—maybe five to eight times what the Soviet Union would ever need to buy—that its food needs are not by themselves enough to put upward pressure on world prices. On the con-

⁵ Although the African famine looms large in our consciousness, the total population of the affected areas is far too small to make any dent in world food surpluses.

trary, the competition for access to the Soviet market among the surplus producers—the United States, Europe, Argentina, Australia, New Zealand (and probably India within a few years)—is already so intense as to depress world food prices.

For practically all non-farm commodities, whether forest products, minerals or metals, world demand is shrinking—in sharp contrast to what the Club of Rome so confidently predicted. Indeed, the amount of raw material needed for a given unit of economic output has been dropping for the entire century, except in wartime. A recent study by the International Monetary Fund calculates the decline as one and one-quarter percent a year (compounded) since 1900.⁶ This would mean that the amount of industrial raw materials needed for one unit of industrial production is now no more than two-fifths of what it was in 1900. And the decline is accelerating. The Japanese experience is particularly striking. In 1984, for every unit of industrial production, Japan consumed only 60 percent of the raw materials consumed for the same volume of industrial production in 1973, 11 years earlier.

Why this decline in demand? It is not that industrial production is fading in importance as the service sector grows—a common myth for which there is not the slightest evidence. What is happening is much more significant. Industrial production is steadily switching away from heavily material-intensive products and processes. One of the reasons for this is the new high-technology industries. The raw materials in a semiconductor microchip account for one to three percent of total production cost; in an automobile their share is 40 percent, and in pots and pans 60 percent. But also in older industries the same scaling down of raw material needs goes on, and with respect to old products as well as new ones. Fifty to 100 pounds of fiberglass cable transmit as many telephone messages as does one ton of copper wire.

This steady drop in the raw material intensity of manufacturing processes and manufacturing products extends to energy as well, and especially to petroleum. To produce 100 pounds of fiberglass cable requires no more than five percent of the energy needed to produce one ton of copper wire. Similarly, plastics, which are increasingly replacing steel in

⁶ David Sapsford, *Real Primary Commodity Prices: An Analysis of Long-Run Movements*, International Monetary Fund Internal Memorandum, May 17, 1985, (unpublished).

automobile bodies, represent a raw material cost, including energy, of less than half that of steel.

Thus it is quite unlikely that raw material prices will ever rise substantially as compared to the prices of manufactured goods (or high-knowledge services such as information, education or health care) except in the event of a major prolonged war.

One implication of this sharp shift in the terms of trade of primary products concerns the developed countries, both major raw material exporters like the United States and major raw material importing countries such as Japan. For two centuries the United States has made maintenance of open markets for its farm products and raw materials central to its international trade policy. This is what it has always meant by an "open world economy" and by "free trade."

Does this still make sense, or does the United States instead have to accept that foreign markets for its foodstuffs and raw materials are in a long-term and irreversible decline? Conversely, does it still make sense for Japan to base its international economic policy on the need to earn enough foreign exchange to pay for imports of raw materials and foodstuffs? Since Japan opened to the outside world 120 years ago, preoccupation—amounting almost to a national obsession—with its dependence on raw material and food imports has been the driving force of Japan's policy, and not in economics alone. Now Japan might well start out with the assumption—a far more realistic one in today's world—that foodstuffs and raw materials are in permanent oversupply.

Taken to their logical conclusion, these developments might mean that some variant of the traditional Japanese policy—highly mercantilist with a strong de-emphasis of domestic consumption in favor of an equally strong emphasis on capital formation, and protection of infant industries—might suit the United States better than its own tradition. The Japanese might be better served by some variant of America's traditional policies, especially a shifting from favoring savings and capital formation to favoring consumption. Is such a radical break with more than a century of political convictions and commitments likely? From now on the fundamentals of economic policy are certain to come under increasing criticism in these two countries—and in all other developed countries as well.

These fundamentals will, moreover, come under the increasingly intense scrutiny of major Third World nations. For if

primary products are becoming of marginal importance to the economies of the developed world, traditional development theories and policies are losing their foundations.⁷ They are based on the assumption—historically a perfectly valid one—that developing countries pay for imports of capital goods by exporting primary materials—farm and forest products, minerals, metals. All development theories, however much they differ otherwise, further assume that raw material purchases by the industrially developed countries must rise at least as fast as industrial production in these countries. This in turn implies that, over any extended period of time, any raw material producer becomes a better credit risk and shows a more favorable balance of trade. These premises have become highly doubtful. On what foundation, then, can economic development be based, especially in countries that do not have a large enough population to develop an industrial economy based on the home market? As we shall presently see, these countries can no longer base their economic development on low labor costs.

IV

The second major change in the world economy is the uncoupling of manufacturing production from manufacturing employment. Increased manufacturing production in developed countries has actually come to mean *decreasing* blue-collar employment. As a consequence, labor costs are becoming less and less important as a “comparative cost” and as a factor in competition.

There is a great deal of talk these days about the “de-industrialization” of America. In fact, manufacturing production has risen steadily in absolute volume and has remained unchanged as a percentage of the total economy. Since the end of the Korean War, that is, for more than 30 years, it has held steady at 23–24 percent of America’s total GNP. It has similarly remained at its traditional level in all of the other major industrial countries.

It is not even true that American industry is doing poorly as an exporter. To be sure, the United States is importing from

⁷ This was asserted as early as 1950 by the South American economist Raúl Prebisch in *The Economic Development of Latin America and its Principal Problems* (E/CN.12/89/REV.1), United Nations Economic Commission for Latin America. But then no one, including myself, believed him.

both Japan and Germany many more manufactured goods than ever before. But it is also exporting more, despite the heavy disadvantages of an expensive dollar, increasing labor costs and the near-collapse of a major industrial market, Latin America. In 1984—the year the dollar soared—exports of American manufactured goods rose by 8.3 percent; and they went up again in 1985. The share of U.S.-manufactured exports in world exports was 17 percent in 1978. By 1985 it had risen to 20 percent—while West Germany accounted for 18 percent and Japan 16. The three countries together thus account for more than half of the total.

Thus it is not the American economy that is being “de-industrialized.” It is the American labor force.

Between 1973 and 1985, manufacturing production (measured in constant dollars) in the United States rose by almost 40 percent. Yet manufacturing employment during that period went down steadily. There are now five million fewer people employed in blue-collar work in American manufacturing industry than there were in 1975.

Yet in the last 12 years total employment in the United States grew faster than at any time in the peacetime history of any country—from 82 to 110 million between 1973 and 1985—that is, by a full one-third. The entire growth, however, was in non-manufacturing, and especially in non-blue-collar jobs.

The trend itself is not new. In the 1920s one out of every three Americans in the labor force was a blue-collar worker in manufacturing. In the 1950s the figure was one in four. It now is down to one in every six—and dropping. While the trend has been running for a long time, it has lately accelerated to the point where—in peacetime at least—no increase in manufacturing production, no matter how large, is likely to reverse the long-term decline in the number of blue-collar jobs in manufacturing or in their proportion of the labor force.

This trend is the same in all developed countries, and is, indeed, even more pronounced in Japan. It is therefore highly probable that in 25 years developed countries such as the United States and Japan will employ no larger a proportion of the labor force in manufacturing than developed countries now employ in farming—at most, ten percent. Today the United States employs around 18 million people in blue-collar jobs in manufacturing industries. By 2010, the number is likely to be no more than 12 million. In some major industries the drop will be even sharper. It is quite unrealistic, for instance, to

expect that the American automobile industry will employ more than one-third of its present blue-collar force 25 years hence, even though production might be 50 percent higher.

If a company, an industry or a country does not in the next quarter century sharply increase manufacturing production and at the same time sharply reduce the blue-collar work force, it cannot hope to remain competitive—or even to remain “developed.” It would decline fairly fast. Britain has been in industrial decline for the last 25 years, largely because the number of blue-collar workers per unit of manufacturing production went down far more slowly than in all other non-communist developed countries. Even so, Britain has the highest unemployment rate among non-communist developed countries—more than 13 percent.

V

The British example indicates a new and critical economic equation: a country, an industry or a company that puts the preservation of blue-collar manufacturing jobs ahead of international competitiveness (which implies a steady shrinkage of such jobs) will soon have neither production nor jobs. The attempt to preserve such blue-collar jobs is actually a prescription for unemployment.

So far, this concept has achieved broad national acceptance only in Japan.⁸ Indeed, Japanese planners, whether in government or private business, start out with the assumption of a doubling of production within 15 or 20 years based on a cut in blue-collar employment of 25 to 40 percent. A good many large American companies such as IBM, General Electric and the big automobile companies have similar forecasts. Implicit in this is the conclusion that a country will have less overall unemployment the faster it shrinks blue-collar employment in manufacturing.

This is not a conclusion that American politicians, labor leaders or indeed the general public can easily understand or accept. What confuses the issue even more is that the United States is experiencing several separate and different shifts in the manufacturing economy. One is the acceleration of the substitution of knowledge and capital for manual labor. Where we spoke of mechanization a few decades ago, we now speak

⁸ The Japanese government, for example, sponsors a finance company that makes long-term, low interest loans to small manufacturers to enable them to automate rapidly.

of “robotization” or “automation.” This is actually more a change in terminology than a change in reality. When Henry Ford introduced the assembly line in 1909, he cut the number of man-hours required to produce a motor car by some 80 percent in two or three years—far more than anyone expects to result from even the most complete robotization. But there is no doubt that we are facing a new, sharp acceleration in the replacement of manual workers by machines—that is, by the products of knowledge.

A second development—and in the long run this may be even more important—is the shift from industries that were primarily labor-intensive to industries that, from the beginning, are knowledge-intensive. The manufacturing costs of the semiconductor microchip are about 70 percent knowledge—that is, research, development and testing—and no more than 12 percent labor. Similarly with prescription drugs, labor represents no more than 15 percent, with knowledge representing almost 50 percent. By contrast, in the most fully robotized automobile plant labor would still account for 20 or 25 percent of the costs.

Another perplexing development in manufacturing is the reversal of the dynamics of size. Since the early years of this century, the trend in all developed countries has been toward ever larger manufacturing plants. The economies of scale greatly favored them. Perhaps equally important, what one might call the “economies of management” favored them. Until recently, modern management techniques seemed applicable only to fairly large units.

This has been reversed with a vengeance over the last 15 to 20 years. The entire shrinkage in manufacturing jobs in the United States has occurred in large companies, beginning with the giants in steel and automobiles. Small and especially medium-sized manufacturers have either held their own or actually added employees. In respect to market standing, exports and profitability too, smaller and middle-sized businesses have done remarkably better than big ones. The reversal of the dynamics of size is occurring in the other developed countries as well, even in Japan where bigger was always better and biggest meant best. The trend has reversed itself even in old industries. The most profitable automobile company these last years has not been one of the giants, but a medium-sized manufacturer in Germany—BMW. The only profitable steel companies, whether in the United States, Sweden or Japan,

have been medium-sized makers of specialty products such as oil drilling pipe.

In part, especially in the United States, this is a result of a resurgence of entrepreneurship.⁹ But perhaps equally important, we have learned in the last 30 years how to manage the small and medium-sized enterprise to the point where the advantages of smaller size, e.g., ease of communications and nearness to market and customer, increasingly outweigh what had been forbidding management limitations. Thus in the United States, but increasingly in the other leading manufacturing nations such as Japan and West Germany as well, the dynamism in the economy has shifted from the very big companies that dominated the world's industrial economy for 30 years after World War II to companies that, while much smaller, are professionally managed and largely publicly financed.

VI

Two distinct kinds of "manufacturing industry" are emerging. One is material-based, represented by the industries that provided economic growth in the first three-quarters of this century. The other is information- and knowledge-based: pharmaceuticals, telecommunications, analytical instruments and information processing such as computers. It is largely the information-based manufacturing industries that are growing.

These two groups differ not only in their economic characteristics but especially in their position in the international economy. The products of material-based industries have to be exported or imported as "products." They appear in the balance of trade. The products of information-based industries can be exported or imported both as "products" and as "services," which may not appear accurately in the overall trade balance.

An old example is the printed book. For one major scientific publishing company, "foreign earnings" account for two-thirds of total revenues. Yet the company exports few, if any, actual books—books are heavy. It sells "rights," and the "product" is produced abroad. Similarly, the most profitable computer "export sales" may actually show up in trade statistics as an "import." This is the fee some of the world's leading banks,

⁹ On this see my book, *Innovation and Entrepreneurship: Practice and Principles*, New York: Harper & Row, 1985.

multinationals and Japanese trading companies get for processing in their home office data arriving electronically from their branches and customers around the world.

In all developed countries, “knowledge” workers have already become the center of gravity of the labor force. Even in manufacturing they will outnumber blue-collar workers within ten years. Exporting knowledge so that it produces license income, service fees and royalties may actually create substantially more jobs than exporting goods.

This in turn requires—as official Washington seems to have realized—far greater emphasis in trade policy on “invisible trade” and on abolishing the barriers to the trade in services. Traditionally, economists have treated invisible trade as a step-child, if they noted it at all. Increasingly, it will become central. Within 20 years major developed countries may find that their income from invisible trade is larger than their income from exports.

Another implication of the “uncoupling” of manufacturing production from manufacturing employment is, however, that the choice between an industrial policy that favors industrial *production* and one that favors industrial *employment* is going to be a singularly contentious political issue for the rest of this century. Historically these have always been considered two sides of the same coin. From now on the two will increasingly pull in different directions; they are indeed already becoming alternatives, if not incompatible.

Benign neglect—the policy of the Reagan Administration these last few years—may be the best policy one can hope for, and the only one with a chance of success. It is probably not an accident that the United States has, after Japan, by far the lowest unemployment rate of any industrially developed country. Still, there is surely need also for systematic efforts to retrain and to place redundant blue-collar workers—something no one as yet knows how to do successfully.

Finally, low labor costs are likely to become less of an advantage in international trade simply because in the developed countries they are going to account for less of total costs. Moreover, the total costs of automated processes are lower than even those of traditional plants with low labor costs; this is mainly because automation eliminates the hidden but high costs of “not working,” such as the expense of poor quality and rejects, and the costs of shutting down the machinery to change from one model of a product to another. Consider two

automated American producers of televisions, Motorola and RCA. Both were almost driven out of the market by imports from countries with much lower labor costs. Both subsequently automated, with the result that these American-made products now successfully compete with foreign imports. Similarly, some highly automated textile mills in the Carolinas can underbid imports from countries with very low labor costs such as Thailand. On the other hand, although some American semiconductor companies have lower labor costs because they do the labor-intensive work offshore, e.g., in West Africa, they are still the high-cost producers and easily underbid by the heavily automated Japanese.

The cost of capital will thus become increasingly important in international competition. And this is where, in the last ten years, the United States has become the highest-cost country—and Japan the lowest. A reversal of the U.S. policy of high interest rates and costly equity capital should thus be a priority for American decision-makers. This demands that reduction of the government deficit, rather than high interest rates, becomes the first defense against inflation.

For developed countries, especially the United States, the steady downgrading of labor costs as a major competitive factor could be a positive development. For the Third World, especially rapidly industrializing countries such as Brazil, South Korea or Mexico, it is, however, bad news.

In the rapid industrialization of the nineteenth century, one country, Japan, developed by exporting raw materials, mainly silk and tea, at steadily rising prices. Another, Germany, developed by leap-frogging into the “high-tech” industries of its time, mainly electricity, chemicals and optics. A third, the United States, did both. Both routes are blocked for today’s rapidly industrializing countries—the first because of the deterioration of the terms of trade for primary products, the second because it requires an infrastructure of knowledge and education far beyond the reach of a poor country (although South Korea is reaching for it). Competition based on lower labor costs seemed to be the only alternative; is this also going to be blocked?

VII

The third major change that has occurred in the world economy is the emergence of the “symbol” economy—capital movements, exchange rates and credit flows—as the flywheel

of the world economy, in place of the “real” economy—the flow of goods and services. The two economies seem to be operating increasingly independently. This is both the most visible and the least understood of the changes.

World trade in goods is larger, much larger, than it has ever been before. And so is the “invisible trade,” the trade in services. Together, the two amount to around \$2.5 trillion to \$3 trillion a year. But the London Eurodollar market, in which the world’s financial institutions borrow from and lend to each other, turns over \$300 billion each working day, or \$75 trillion a year, a volume at least 25 times that of world trade.¹⁰

In addition, there are the foreign exchange transactions in the world’s main money centers, in which one currency is traded against another. These run around \$150 billion a day, or about \$35 trillion a year—12 times the worldwide trade in goods and services.

Of course, many of these Eurodollars, yen and Swiss francs are just being moved from one pocket to another and may be counted more than once. A massive discrepancy still exists, and there is only one conclusion: capital movements unconnected to trade—and indeed largely independent of it—greatly exceed trade finance.

There is no one explanation for this explosion of international—or more accurately, transnational—money flows. The shift from fixed to floating exchange rates in 1971 may have given an initial impetus (though, ironically, it was meant to do the exact opposite) by inviting currency speculation. The surge in liquid funds flowing to petroleum producers after the two oil shocks of 1973 and 1979 was surely a major factor.

But there can be little doubt that the U.S. government deficit also plays a big role. The American budget has become a financial “black hole,” sucking in liquid funds from all over the world, making the United States the world’s major debtor country.¹¹ Indeed, it can be argued that it is the budget deficit that underlies the American trade and payments deficit. A trade and payments deficit is, in effect, a loan from the seller of goods and services to the buyer, that is, to the United States.

¹⁰ A Eurodollar is a U.S. dollar held outside the United States.

¹¹ This is cogently argued by Stephen Marris, for almost 30 years economic adviser to the Organization for Economic Cooperation and Development (OECD), in his *Deficits and the Dollar: The World Economy at Risk*, Washington: Institute of International Economics, December 1985.

Without it Washington could not finance its budget deficit, at least not without the risk of explosive inflation.

The way major countries have learned to use the international economy to avoid tackling disagreeable domestic problems is unprecedented: the United States has used high interest rates to attract foreign capital and avoid confronting its domestic deficit; the Japanese have pushed exports to maintain employment despite a sluggish domestic economy. This politicization of the international economy is surely also a factor in the extreme volatility and instability of capital flows and exchange rates.

Whichever of these causes is judged the most important, together they have produced a basic change: in the world economy of today, the "real" economy of goods and services and the "symbol" economy of money, credit and capital are no longer bound tightly to each other; they are, indeed, moving further and further apart.

Traditional international economic theory is still neoclassical, holding that trade in goods and services determines international capital flows and foreign exchange rates. Capital flows and foreign exchange rates since the first half of the 1970s have, however, moved quite independently of foreign trade, and indeed (e.g., in the rise of the dollar in 1984–85) have run counter to it.

But the world economy also does not fit the Keynesian model in which the "symbol" economy determines the "real" economy. The relationship between the turbulences in the world economy and the various domestic economies has become quite obscure. Despite its unprecedented trade deficit, the United States has had no deflation and has barely been able to keep inflation in check; it also has the lowest unemployment rate of any major industrial country except Japan, lower than that of West Germany, whose exports of manufactured goods and trade surpluses have been growing as fast as those of Japan. Conversely, despite the exponential growth of Japanese exports and an unprecedented Japanese trade surplus, the Japanese domestic economy is not booming but has remained remarkably sluggish and is not generating any new jobs.

Economists assume that the "real" economy and the "symbol" economy will come together again. They do disagree, however—and quite sharply—as to whether they will do so in a "soft landing" or in a head-on collision.

The "soft-landing" scenario—the Reagan Administration is

committed to it, as are the governments of most of the other developed countries—expects the U.S. government deficit and the U.S. trade deficit to go down together until both attain surplus, or at least balance, sometime in the early 1990s. Presumably both capital flows and exchange rates will then stabilize, with production and employment high and inflation low in major developed countries.

In sharp contrast to this are the “hard-landing” scenarios.¹² With every deficit year the indebtedness of the U.S. government goes up, and with it the interest charges on the U.S. budget, which in turn raises the deficit even further. Sooner or later, the argument goes, foreign confidence in America and the American dollar will be undermined—some observers consider this practically imminent. Foreigners would stop lending money to the United States and, indeed, try to convert their dollars into other currencies. The resulting “flight from the dollar” would bring the dollar’s exchange rates crashing down, and also create an extreme credit crunch, if not a “liquidity crisis” in the United States. The only question is whether the result for the United States would be a deflationary depression, a renewed outbreak of severe inflation or, the most dreaded affliction, “stagflation”—a deflationary, stagnant economy combined with an inflationary currency.

There is, however, a totally different “hard-landing” scenario, one in which Japan, not the United States, faces an economic crisis. For the first time in peacetime history the major debtor, the United States, owes its foreign debt in its own currency. To get out of this debt it does not need to repudiate it, declare a moratorium, or negotiate a “roll-over.” All it has to do is devalue its currency and the foreign creditor has effectively been expropriated.

For “foreign creditor,” read Japan. The Japanese by now hold about half of the dollars the United States owes to foreigners. In addition, practically all of their other claims on the outside world are in dollars, largely because the Japanese have resisted all attempts to make the yen an international trading currency lest the government lose control over it. Altogether, Japanese banks now hold more international assets than do the banks of any other country, including the United States. And practically all these assets are in U.S. dollars—\$640 billion of

¹² Stephen Marris, *Deficits and the Dollar*, cited above, gives the clearest and most persuasive presentation of the hard-landing scenarios.

them. A devaluation of the U.S. dollar thus would fall most heavily on the Japanese.

The repercussions for Japan extend deep into its trade and domestic economy. By far the largest part of Japan's exports goes to the United States. If there is a "hard landing," the United States might well turn protectionist almost overnight; it is unlikely that Americans would let in large volumes of imported goods were the unemployment rate to soar. But this would immediately cause severe unemployment in Tokyo and Nagoya and Hiroshima, and might indeed set off a true depression in Japan.

There is still another "hard-landing" scenario. In this version neither the United States, nor Japan, nor the industrial economies altogether, experience the "hard landing"; it would hit the already depressed producers of primary products.

Practically all primary materials are traded in dollars, and their prices might not go up at all should the dollar be devalued (they actually went down when the dollar plunged by 30 percent between summer 1985 and February 1986). Thus Japan may be practically unaffected by a dollar devaluation; Japan needs dollar balances only to pay for primary-product imports, as it buys little else on the outside and has no foreign debt. The United States, too, may not suffer, and may even benefit as its industrial exports become more competitive. But while the primary producers sell mainly in dollars, they have to pay in other developed nations' currencies for a large part of their industrial imports. The United States, after all, although the world's leading exporter of industrial goods, still accounts for only one-fifth of the total. And the dollar prices of the industrial goods furnished by others—the Germans, the Japanese, the French, the British, and so on—are likely to go up. This might bring about a further drop in the terms of trade for the already depressed primary producers. Some estimates of the possible deterioration go as high as ten percent, which would entail considerable hardship not only for metal mines in South America and Zimbabwe, but also for farmers in Canada, Kansas and Brazil.

One more possible scenario involves no "landings," either "soft" or "hard." What if the economists were wrong and both the American budget deficit and American trade deficit continue, albeit at lower levels than in recent years? This would happen if the outside world's willingness to put its money into the United States were based on other than purely economic

considerations—on their own internal domestic politics, for example, or simply on the desire to escape risks at home that appear to be far worse than a U.S. devaluation.

This is the only scenario that is so far supported by hard facts rather than by theory. Indeed, it is already playing.

The U.S. government talked the dollar down by almost one-third (from a rate of 250 yen to 180 yen to the dollar) between summer 1985 and February 1986—one of the most massive devaluations ever of a major currency, though called a “re-adjustment.” America’s creditors unanimously supported this devaluation and indeed demanded it. More amazing still, they responded by increasing their loans to the United States, and substantially so. International bankers seem to agree that the United States is more creditworthy the more the lender stands to lose by lending to it!

A major reason for this Alice-in-Wonderland attitude is that the biggest U.S. creditors, the Japanese, clearly prefer even very heavy losses on their dollar holdings to domestic unemployment. And without exports to the United States, Japan might have unemployment close to that of Western Europe, nine to eleven percent, and concentrated in the most politically sensitive smokestack industries in which Japan is becoming increasingly vulnerable to competition from newcomers such as South Korea.

Similarly, economic conditions alone will not induce Hong Kong Chinese to withdraw the money they have transferred to American banks in anticipation of Hong Kong’s reversion to Chinese sovereignty in 1997. These deposits amount to billions. The even larger amounts—at least several hundred billion—of “flight capital” from Latin America that have found refuge in the U.S. dollar will also not be lured away by purely economic incentives such as higher interest rates.

The sum needed from the outside to maintain both a huge U.S. budget deficit and a huge U.S. trade deficit would be far too big to make this the most probable scenario. But if political factors are in control, the “symbol” economy is indeed truly “uncoupled” from the “real” economy, at least in the international sphere. Whichever scenario proves right, none promises a return to any kind of “normalcy.”

VIII

From now on exchange rates between major currencies will have to be treated in economic theory and business policy alike as a “comparative-advantage” factor, and a major one.

Economic theory teaches that the comparative-advantage factors of the “real” economy—comparative labor costs and labor productivity, raw material costs, energy costs, transportation costs and the like—determine exchange rates. Practically all businesses base their policies on this notion. Increasingly, however, it is exchange rates that decide how labor costs in country A compare to labor costs in country B. Exchange rates are thus a major “comparative cost” and one totally beyond business control. Any firm exposed to the international economy has to realize that it is in two businesses at the same time. It is both a maker of goods (or a supplier of services) and a “financial” business. It cannot disregard either.

Specifically, the business that sells abroad—whether as an exporter or through a subsidiary—will have to protect itself against three foreign exchange exposures: proceeds from sales, working capital devoted to manufacturing for overseas markets, and investments abroad. This will have to be done whether the business expects the value of its own currency to go up or down. Businesses that buy abroad will have to do likewise. Indeed, even purely domestic businesses that face foreign competition in their home market will have to learn to hedge against the currency in which their main competitors produce. If American businesses had been run this way during the years of the overvalued dollar, from 1982 through 1985, most of the losses in market standing abroad and in foreign earnings might have been prevented. They were management failures, not acts of God. Surely stockholders, but also the public in general, have every right to expect management to do better the next time around.

In respect to government policy there is one conclusion: don’t be “clever.” It is tempting to exploit the ambiguity, instability and uncertainty of the world economy to gain short-term advantages and to duck unpopular political decisions. But it does not work. Indeed, disaster is a more likely outcome than success, as all three of the attempts made so far amply indicate.

In the first attempt, the Carter Administration pushed down the U.S. dollar to artificial lows to stimulate the American economy through the promotion of exports. American exports did indeed go up—spectacularly so. But far from stimulating the domestic economy, this depressed it, resulting in simultaneous record unemployment and accelerated inflation—the worst of all possible outcomes.

President Reagan a few years later pushed up interest rates

to stop inflation, and also pushed up the dollar. This did indeed stop inflation. It also triggered massive inflows of capital. But it so overvalued the dollar as to create a surge of foreign imports. As a result, the Reagan policy exposed the most vulnerable of the smokestack industries, such as steel and automobiles, to competition they could not possibly meet. It deprived them of the earnings they needed to modernize themselves. Also, the policy seriously damaged, perhaps irreversibly, the competitive position of American farm products in the world markets, and at the worst possible time. Worse still, his "cleverness" defeated Mr. Reagan's major purpose: the reduction of the U.S. government deficit. Because of the losses to foreign competition, domestic industry did not grow enough to produce higher tax revenues. Yet the easy and almost unlimited availability of foreign money enabled Congress (and the Administration) to postpone again and again action to cut the deficit.

In the third case the Japanese, too, may have been too clever in their attempt to exploit the disjunction between the international "symbol" and "real" economies. Exploiting an undervalued yen, the Japanese have been pushing exports—a policy quite reminiscent of America under the Carter Administration. But the Japanese policy similarly has failed to stimulate the domestic economy; it has been barely growing these last few years despite the export boom. As a result, the Japanese have become dangerously overdependent on one customer, the United States. This has forced them to invest huge sums in American dollars, even though every thoughtful Japanese (including, of course, individuals in the Japanese government and the Japanese central bank) has known all along that these investments would end up being severely devalued.

Surely these three lessons should have taught us that government economic policies will succeed to the extent to which they try to harmonize the needs of the two economies, rather than to the extent to which they try to exploit the disharmony between them. Or to repeat very old wisdom, "in finance don't be clever; be simple and conscientious." I am afraid this is advice that governments are not likely to heed soon.

IX

It is much too early to guess what the world economy of tomorrow will look like. Will major countries, for instance,

succumb to traditional fears and retreat into protectionism? Or will they see a changed world economy as an opportunity?

Some parts of the main agenda, however, are fairly clear by now. Rapidly industrializing countries like Mexico or Brazil will need to formulate new development concepts and policies. They can no longer hope to finance their development by raw material exports, e.g., Mexican oil. It is also becoming unrealistic for them to believe that their low labor costs will enable them to export large quantities of finished goods to developed countries—something the Brazilians, for instance, still expect. They would do much better to go into “production sharing,” that is, to use their labor advantage to become subcontractors to developed-country manufacturers for highly labor-intensive work that cannot be automated—some assembly operations, for instance, or parts and components needed only in relatively small quantities. Developed countries no longer have the labor to do such work, which even with the most thorough automation will still account for 15 to 20 percent of manufacturing work.

Such production sharing is, of course, how Singapore, Hong Kong and Taiwan bootstrapped their development. Yet in Latin America production sharing is still politically unacceptable and, indeed, anathema. Mexico, for instance, has been deeply committed since its beginnings as a modern nation in the early years of this century to making its economy less dependent on, and less integrated with, that of its big neighbor to the north. That this policy has been a total failure for 80 years has only strengthened its emotional and political appeal.

Even if production sharing is implemented to the fullest, it would not by itself provide enough income to fuel development, especially of countries so much larger than the Chinese “city-states.” We thus need a new model and new policies.

Can we learn something from India? Everyone knows of India’s problems—and they are legion. Few people seem to realize, however, that since independence India has done a better development job than almost any other Third World country: it has enjoyed the fastest increase in farm production and farm yields; a growth rate in manufacturing production equal to that of Brazil, and perhaps even of South Korea (India now has a bigger industrial economy than any but a handful of developed countries); the emergence of a large and highly entrepreneurial middle class; and, arguably, the greatest achievement in providing schooling and health care in the

villages. Yet the Indians followed none of the established models. They did not, like Stalin, Mao and so many leaders of newly independent African nations, despoil the peasants to produce capital for industrial development. They did not export raw materials. And they did not export the products of cheap labor. Instead, since Nehru's death in 1964, India has followed a policy of strengthening agriculture and encouraging consumer goods production. India and its achievement are bound to get far more attention in the future.

The developed countries, too, need to think through their policies in respect to the Third World—and especially in respect to the “stars” of the Third World, the rapidly industrializing countries. There are some beginnings: the debt proposals recently put forward by Treasury Secretary James A. Baker, or the new lending criteria recently announced by the World Bank for loans to Third World countries, which will be made conditional on a country's overall development policies rather than on the soundness of individual projects. But these proposals are aimed more at correcting past mistakes than at developing new policies.

The other major agenda item is—inevitably—the international monetary system. Since the Bretton Woods Conference in 1944, the world monetary system has been based on the U.S. dollar as the reserve currency. This clearly does not work any more. The reserve-currency country must be willing to subordinate its domestic policies to the needs of the international economy, e.g., risk domestic unemployment to keep currency rates stable. And when it came to the crunch, the United States refused to do so—as Keynes, by the way, predicted 40 years ago.

The stability supposedly supplied by the reserve currency could be established today only if the major trading countries—at a minimum the United States, West Germany and Japan—agreed to coordinate their economic, fiscal and monetary policies, if not to subordinate them to joint (and this would mean supranational) decision-making. Is such a development even conceivable, except perhaps in the event of worldwide financial collapse? The European experience with the far more modest European Currency Unit is not encouraging; so far, no European government has been willing to yield an inch for the sake of the ECU. But what else can be done? Have we come to the end of the 300-year-old attempt to regulate and stabilize money

on which, after all, both the modern nation-state and the international system are largely based?

We are left with one conclusion: economic dynamics have decisively shifted from the national economy to the world economy.

Prevailing economic theory—whether Keynesian, monetarist or supply-side—considers the national economy, especially that of the large developed countries, to be autonomous and the unit of both economic analysis and economic policy. The international economy may be a restraint and a limitation, but it is not central, let alone determining. This “macroeconomic axiom” of the modern economist has become increasingly shaky. The two major subscribers to this axiom, Britain and the United States, have done least well economically in the last 30 years, and have also had the most economic instability.

West Germany and Japan never accepted the “macroeconomic axiom.” Their universities teach it, of course, but their policymakers, both in government and in business, reject it. Instead, both countries all along have based their economic policies on the world economy, have systematically tried to anticipate its trends and exploit its changes as opportunities. Above all, both make the country’s competitive position in the world economy the first priority in their policies—economic, fiscal, monetary, even social—to which domestic considerations are normally subordinated. And these two countries have done far better—economically and socially—than Britain and the United States these last 30 years. In fact, their focus on the world economy and the priority they give it may be the real “secret” of their success.

Similarly the “secret” of successful businesses in the developed world—the Japanese, the German carmakers like Mercedes and BMW, Asea and Erickson in Sweden, IBM and Citibank in the United States, but equally of a host of medium-sized specialists in manufacturing and in all kinds of services—has been that they base their plans and their policies on exploiting the world economy’s changes as opportunities.

From now on any country—but also any business, especially a large one—that wants to prosper will have to accept that it is the world economy that leads and that domestic economic policies will succeed only if they strengthen, or at least do not impair, the country’s international competitive position. This may be the most important—it surely is the most striking—feature of the changed world economy.

Edward L. Morse

AFTER THE FALL: THE POLITICS OF OIL

The most startling surprise in the international economy during the 1980s has been the fulfillment of prophecies made five years ago—often voiced, seldom believed—that oil prices would decline significantly from their peak price of over \$40 a barrel in 1980–81. Prices have, in fact, fallen to less than \$12 a barrel on the spot market this past winter.

There is almost universal agreement that, on the whole, lower oil prices are beneficial to the world economy. But very low prices will pose very big problems. A further dramatic decline in oil prices will have a revolutionary impact on world politics and the international economy of a magnitude tantamount to that of the oil price increases in 1973–74 and 1979–80.

An explanation of the events that will be triggered by an oil price collapse depends, first, on an understanding of the peculiar nature of the international oil trade, so unlike that of other commodities, and second, on a determination of exactly what happened this past winter. Then the conditions that would allow a free-fall in oil prices can be defined. The consequences of such a price drop, including the implications for Western energy security, will become evident. And appropriate policy responses can be discussed.

Whatever emerges in the coming months, it is clear that the oil sector, with its fundamental effects on international economic and political affairs, will never again be anything like what it was.

II

The international petroleum industry has always been somewhat special and different from other commodity sectors. Given its pervasive influence on industrial growth, and the

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record of government and industry interventions over the decades, the oil sector has not generally functioned as a free transparent market in which price is determined by the interaction of many buyers and sellers. At most times in the past, rather, oil has been traded through a contrived mechanism to balance supply and demand. The market has also been a source of dynamic change since before the turn of the century, when oil was first produced in commercial quantities.

Throughout this period, beginning roughly in 1890, oil prices have experienced sharp cyclical change in a remarkably consistent pattern. The dollar price of oil in real terms has gone from trough to peak roughly every ten years, and then moved from peak to trough in the decade following. In the cycle that preceded the current phase, oil prices had reached a floor of less than \$3 per barrel (in 1976 dollars) at the end of World War II, rising to a peak of about \$4.25 in 1958. Throughout the 1960s, the real price of oil steadily declined, as low-cost Middle Eastern oil came on the market, and finally reached its trough at about \$3.90 per barrel during 1969–70.

The last cycle was the most volatile, with the peak reached by oil prices in 1981—about \$12.50, in real price terms—representing a 225-percent increase over the previous decade. If the pattern continues, we will be in for a long price decline that will probably reach bottom in the early 1990s, when price levels will hover at a level, expressed in 1986 dollars, of \$8 to \$10 per barrel.

The 20-year boom-and-bust pattern of the international oil market has shown another interesting pattern: each recent price trough has brought with it a reorganization of the petroleum industry, uniting governments and companies in actions to limit the damage of price declines and a contracting petroleum production cycle.

The first such extraordinary effort came with the price trough of 1932, when an oil glut developed in the United States. Oil companies and the governors of the various oil-producing states came together and agreed to impose production restraints. At various stages the Texas Railroad Commission and the U.S. federal government managed this “cartel.” In the period after World War II, the “Seven Sisters” (the major international oil companies), which had discovered and developed new supplies outside of traditional sources, especially in the Middle East, worked together informally to expand and contract production when market balancing was required. In

the late 1950s, another price trough resulted in the creation of the Organization of Petroleum Exporting Countries, which eventually developed strong mechanisms to control production levels and prices. OPEC had been formed in an effort to shift the burden of adjustment away from the oil producing members and back to the United States. Through the tumultuous 1970s, OPEC appeared to provide a successful mechanism for supporting prices via production restraints, but it was only in the early 1980s that the mechanism was actively tested. In early 1973 virtually no one imagined that an oil revolution was at hand, or that its impact would effect fundamental changes in the world's economy, the security of the West and the structure of the energy industry.

Today we can observe a similar set of revolutionary conditions, even though as recently as three years ago few foresaw that a price collapse could occur as rapidly as it has. This is because, until last year, the gradually accelerating decline in oil prices was both masked and tempered by the appreciation of the U.S. dollar. Oil is priced in dollars, so Europe and Japan appeared to be paying more for their oil in 1985 than in 1981, and most OPEC countries' earnings were modestly improved. Now, as the dollar has depreciated relative to other currencies, the consuming countries have gained the benefits of lower oil prices, just as the exporters have suffered.

III

Last fall, oil prices began to firm up on the spot market as the winter heating season approached; then, in January and February 1986, they tumbled by more than \$15 in just a few weeks. Why did the oil market, which had been weakening for four years, suddenly appear to collapse out of control?

The answer can be found in decisions taken in Saudi Arabia in the summer and fall of 1985. The Saudis decided to flood a weak market, with the intention of pushing prices down rapidly. They made certain their oil would be sold by changing the method by which it was priced. Traditionally the Saudis, like other OPEC producers and non-OPEC producers such as Mexico, Britain and Norway, had established official sales prices. The new approach—called netback pricing—assured refiners buying Saudi crudes of a profit on each barrel processed and sold as gasoline, diesel, fuel oil and other petroleum products. Through this new pricing scheme, Saudi oil was valued by the market price of the products into which it was refined (e.g.,

gasoline, heating oil), less the costs of refining and transportation. Saudi production increased from a low level of 2.5 million barrels or less a day to a new targeted daily level of 4.3 million barrels or more. Why did the Saudi government change its traditional, conservative approach to selling crude oil?

Let us look at the context of the past half-decade. The 1980s began with a nervous and tight oil market. The revolution in Iran and the curtailment of Iranian production in 1979–80 spurred an increase in the price of oil by more than two times, to \$30 per barrel and above for oil sold under term contract and to more than \$40 per barrel sold on a spot basis. These high prices, coming on top of the pricing revolution of 1973–74, ushered in a world recession. They also served to accelerate the search for oil outside OPEC, to encourage energy-saving investments, and to make virtually all competitive fuels (e.g., nuclear power, natural gas and coal) attractive alternatives to petroleum. Thus, demand for oil dropped, even as new oil supplies from non-OPEC sources were brought into production.

In order to protect the price of internationally traded oil, OPEC reached a series of internal agreements, first made in 1982–83 and updated several times thereafter, to restrict its members' production to 18 million barrels per day (in contrast to the OPEC peak production level of 31 million barrels per day, reached in 1981), and to allocate that production among its members by quota. Some ten million barrels a day of production capacity had to be left untapped, or shut in, in order to balance supply and demand at a price in the range of \$25 to \$28 per barrel. Saudi Arabia, with by far the largest reserves in OPEC (and the world), assumed the role of swing producer, adjusting its production level up and down to balance supply with demand and to protect the price. OPEC's bet was that a revival in world economic activity would soon commence, bringing with it higher demand for oil and more robust OPEC production.

The bet was lost. Instead, OPEC saw its role in world oil trade diminish as new supplies outside OPEC came into the market. Through new investment, British and Norwegian production grew to new record levels in 1983, 1984 and 1985. India and Brazil, two of the largest developing countries, moved rapidly from being large importers toward achieving oil self-sufficiency. Other developing countries began to produce and export oil, and because of conservation, industrial restructur-

ing and fuel switching in the industrial countries, oil demand never rebounded as the OPEC strategists had expected.

The members of OPEC, the Saudis and other Persian Gulf states in particular, saw their plight worsening. OPEC's share of free-world oil production shrank from a high of 55 percent in 1973 to 30 percent in 1985, and the cartel was unable to market production at its targeted volume. Despite a widespread view that the lower-producing OPEC countries were "cheating" by producing at levels higher than their quotas, the remarkable feature of the oil market during 1981-85 was that OPEC held together so well. It did so essentially because Saudi Arabia was willing to be the swing producer and adjust its production downward to balance the market. The result was low Saudi production and Saudi oil income of \$28 billion in 1985 as opposed to its peak income of \$113 billion in 1981.

OPEC came to understand that it could not go on playing the role of market balancer and price supporter alone. But despite several efforts to gain the support of Britain and Norway, the North Sea producers refused to limit their production. Instead, in order to protect their market shares, Norway and Britain abandoned administered pricing in 1984 and let the market determine the price for their crude. By last summer, the Saudis recognized that the only way they could be assured a minimally acceptable income was to reduce prices and increase production, punishing the North Sea producers with lower income in hopes of gaining their future cooperation.

What are the chances of success for this new Saudi gamble? Is there any way OPEC and non-OPEC producers can together or separately regain control over the oil market and assure a higher minimum price? Should the Saudis again fail in their tactics, what would be the consequences—for them, for OPEC, for other oil producers and for the world economy? The answers depend on certain fundamental changes that can now be discerned in the international oil industry.

IV

Successful oil market management depends on three basic conditions. The first is a limitation on the number of major participants in the market: the fewer the better. The second is the ability of the major players to take decisions to rationalize production, deciding where, for how long, and under what circumstances production is to be shut in. The third relates to the degree to which the petroleum industry is integrated, with

networks of close ties between upstream activities (i.e., oil production) and downstream activities (oil refining and marketing). The more integrated the industry, the more amenable the market will be to constructive management.

Bearing this in mind, it can be seen that the revolution of the 1970s in the petroleum sector was manifold. It involved not only the quadrupling of oil prices and the emergence of a powerful OPEC cartel, but it also involved a wave of nationalizations in the developing countries, including Kuwait, Venezuela, Iraq, Peru and Saudi Arabia, of the oil-producing properties of the international oil companies. In the 1970s, nationalized firms accounted for nearly three-quarters of international production and included virtually all of the important oil exporters in the developing world.

Beyond the obvious transfer of equity interests, these nationalizations brought about fundamental and quite unintended changes in the structure of the oil market. They broke the linkages between the developing world's oil production and that of the industrialized countries, an essential connection if world production is to be rationalized. The nationalizations motivated the international oil companies to accelerate their search for oil in new frontier areas, including the North Sea and developing countries where governments permitted the companies to make reasonable profits. And finally, the nationalizations broke the tight coordination of production and refining, long considered a prerequisite to managing the petroleum economy by reducing price volatility.

The cumulative result of the developments of the 1970s is a paradoxical imbalance in the oil market, one that only invites pressures for substantially lower prices. For the past four years, supply and demand have been balanced only because the lowest-cost producers (the Middle East) have shut in their production. Meanwhile, the highest-cost producers have pumped oil at near maximum capacities and have had every incentive to expand production. This condition is exactly the opposite of what one would anticipate in a truly free market.

In a transparent and efficient marketplace, prices should decline toward the level of production expenses in the least-cost producing countries, and production capacity of higher-cost producers would be shut in until such time as demand warranted the production of higher-cost oil. In today's world, this would mean closing down production in the North Sea, Alaska and offshore North America, and the expanding of

production in the Arabian peninsula. But the opposite has happened.

To further distort the classic model, new oil production is now anticipated from the North Sea, from new entrants to the ranks of oil producers and exporters such as Colombia and North Yemen, from steady increases in production elsewhere among importers in the developing world (Brazil and India), and from expected increases in Iraqi and perhaps Iranian production—once they are no longer at war—due to the completion of new pipeline outlets.

Non-OPEC production should rise by some 500,000 barrels a day in 1986, reaching nearly 28.8 million barrels, and by an additional similar amount in the following two or three years. With demand basically flat at 45.5 million barrels, even if prices fall, requirements for OPEC oil will average no more than 16.5 million barrels a day this year, some 700,000 barrels less than last year. This spring and summer, world oil demand is expected to drop to 44 million barrels a day; demand for OPEC oil should be no more than 15.6 million and perhaps as low as 14.5 million barrels—the lowest level since the oil price surge of 1973.

Furthermore, with the separation of production and refining operations, the volume of oil bought on the spot market rose in the late 1970s through the early 1980s from about five percent to perhaps 50 percent of all traded oil, creating enormous price volatility and, eventually, downward price pressure. Organized futures markets in petroleum products and crude oil came into existence in New York and London to compensate for the new volatility, providing opportunities not only for hedging, but also for speculation.

These structural circumstances bore down on the largest and most flexible of the producers, Saudi Arabia. By shutting in their production, Saudi Arabia and other OPEC countries have, in effect, subsidized the prices for the high-cost producers in the United States, Mexico and the North Sea countries. Saudi Arabia has now demonstrated its frustration at the heavy revenue burdens incurred by subsidizing oil production outside of OPEC. Its new policy of higher production is thus partially punitive in nature, aimed at forcing non-OPEC exporters and other producers to share in the burden of balancing the market.

These new efforts will accelerate another structural change in the petroleum market and the petroleum industry: OPEC has,

at least for the time being, lost its role as a key player in the political economy of oil.

The members of OPEC are basically interested in maximizing the rents to be gained from oil exploitation. They also, as a group, have wanted to make certain that the burdens of any market adjustments, introduced to compensate for changing conditions of supply, demand and price, are pushed onto the oil-importing countries and the international oil companies. As of winter 1985–86, this approach had failed.

Despite this common purpose, the members of OPEC differ significantly one from another. Some (e.g., Saudi Arabia and the smaller producers around the Arabian peninsula) are high-reserve, low-population countries, the remaining members have low reserves and a high population. From another perspective, the relationships within OPEC are based on the fact that one producer, Saudi Arabia, is so much more significant than the others.

In this respect, the bargaining relationships within OPEC look strikingly like those within NATO. OPEC and NATO both are comprised of like-minded governments, targeting a common external “enemy,” but also relating to one another through an array of asymmetrical relations: a large country at the “core” and many smaller and less influential countries around the “periphery.” Within NATO it is the interest of the U.S. government to maximize its own freedom in dealing with the Soviet Union and to assure that its allies undertake policies that do not undermine its bilateral relations with the U.S.S.R. Similarly, it is in the interests of the smaller NATO countries to restrain the United States, to make its behavior more regular and predictable, and to maximize their own freedom of action to pursue individual foreign policies vis-à-vis the countries of the Eastern bloc.

OPEC, too, is comprised of a large country at the core of the organization (Saudi Arabia) and smaller countries along the periphery. It has been the Saudi intention for the past decade to maintain a moderate international petroleum sector, one in which the life of petroleum as an important commodity in international trade is stretched out as long as possible. This has meant that although the Saudis do not want to see the price of oil fall precipitously, they have also not been eager to see the price increase dramatically. It has been the Saudi objective to maximize its own freedom and to constrain that of its OPEC partners. Similarly, it has been the goal of virtually all of Saudi

Arabia's partners in OPEC to enlarge their own freedom to produce and price oil and to keep Saudi behavior predictable and constrained. That tension between Saudi Arabia and the other OPEC producers resulted in the stalemate that the Saudi decision to regain its market share broke open.

Given their large external financial reserves, their links to banks in the industrialized countries and their military links to the United States, the Saudis are torn between the Western industrialized countries and their OPEC partners. From this perspective, it can be concluded that Saudi Arabia's recent behavior reflects an understanding that a fundamental structural shift is required in the way the international petroleum sector is governed. The older ties among OPEC countries may become less relevant than the process of establishing new alignments among oil producers and consumers.

The upshot of all these circumstances is clear. A radical restructuring of the oil industry and the oil market is about to take place. That restructuring will require new approaches to the sensible management of the petroleum economy. What is required is a simplification in the number of major participants in the market, a mechanism to organize production in correlation with demand, and a reintegration between upstream and downstream petroleum operations. This restructuring will not take place without an intervening step: namely a radical collapse in oil prices sometime during the next 18 months, perhaps as early as this summer. Oil prices in the range of \$8 to \$10 per barrel cannot be dismissed.

v

What will be the consequences of such a price collapse? If Saudi Arabia's gamble to push the costs of adjustment onto non-OPEC producers fails, as the preceding analysis of structural changes in the petroleum sector implies it might, there is no logical stopping place for the price of oil above \$8–\$10 per barrel. Oil industry analysts agree that production capacity will not be restrained *for reasons of cost* unless the price falls below \$8 per barrel. Furthermore, at various points between \$10 and \$20 per barrel, new investments in energy conservation cease. New capital expenditures by oil companies are also reduced, eventually almost to the point of elimination.

Absent political intervention, and given the extraordinary overhang of supply, with OPEC's production capacity still some ten million barrels per day higher than current production

levels, this situation can continue for a long time. With oil prices dropping toward \$10 per barrel, it should take at least five years before lack of investment in new supplies and increases in demand triggered by low prices begin to push prices upwards again—excluding, of course, the occurrence of a new supply disruption. Lack of new investment will result in dramatically decreasing production levels in certain parts of the world, probably most significantly in the United States. With oil priced at less than \$16–\$18 per barrel, new investments in the more costly techniques of secondary and tertiary recovery will cease. At less than \$15 per barrel, stripper-well production, *responsible for about one million barrels a day today*, will be terminated. Overall, we can anticipate a decline in U.S. domestic production on the order of ten percent per annum.

In a relatively short period of time, therefore, Western economic security will begin to be threatened by a substantial decline in new energy investments. Given the steep rate of decline of some domestic reserves, the maintenance of American production at levels covering two-thirds of domestic consumption requires a constant effort to assure that new reserves are brought into commercial production. These reserves tend to be high cost and to require investments in secondary and tertiary recovery not needed elsewhere, particularly in the Middle East. Price uncertainty alone leads to the postponement of such investments. Very low prices preclude them.

The faster the decline to \$10 a barrel and the longer it lasts, the more significant will be the implications for energy security and inflation in the 1990s. Without sustained efforts to seek out new sources of conventional oil supply, growing demand and diminishing surplus production capacity for petroleum could result in a price escalation in the 1990s not unlike that which the world experienced in the 1970s.

Beyond the economic effects are the political implications for Saudi Arabia and other Middle Eastern low-population oil producers. In the shorter term, a price decline will raise serious problems of political stability in all oil-exporting regimes. It would weaken the ability of the Saudi government to maintain the authority of the king vis-à-vis other members of the extended ruling family, given their sharp reductions in income. It would also affect their feelings toward the West in general, and the United States in particular, provoking a likely nationalistic response based on a belief that Western governments somehow engineered the price collapse in order to punish the

Saudi regime (for reasons, for example, associated with America's ties to Israel). It would possibly further fuel Islamic fundamentalist nationalism in the Persian Gulf. In short, lower prices in a weakened Saudi regime could pose security dilemmas for America's strategic interests in the Arabian peninsula.

Over the longer run, especially if new exploration expenditures outside the Gulf are dramatically reduced, a price collapse would be a prelude to a reassertion of Saudi dominance in the international oil markets in the next decade, once the surplus production capacity of the world is drawn down. Such a development poses a dilemma for the West: this is true no matter whether one views the situation with the suspicion that heightened Middle Eastern control over the world's oil supplies will result in sharply higher prices and detrimental conditions for Western economic interests, or whether one believes that greater dependence on Saudi and Middle Eastern oil creates heightened vulnerabilities in fundamental Western economic and security interests. It is perhaps unwise to speculate on what type of Saudi regime will be in place in the 1990s when the United States and other Western countries will again be highly dependent on Middle Eastern supplies. It also matters less what the Saudis have been like in the past than what the implications are for Saudi behavior in the future. A new xenophobic Saudi leadership under circumstances of heightened Western dependence on Saudi oil might be dangerous indeed.

The concentration of extra production capacity that will be held by Middle Eastern countries in the 1990s could well make Western dependence much greater than it was in the 1970s. The "oil weapon" could return with a vengeance. In any event, the Saudi role as swing producer balancing the marketplace will be much more critical. Both the shorter- and longer-term consequences of a decline in oil prices therefore raise significant energy security questions.

Of special significance is the effect of lower prices on the oil exporting countries, especially those most heavily in debt, such as Mexico and Nigeria. Clearly, lower prices will result in lower revenues for virtually all of the oil exporting countries, whether they belong to OPEC or not (assuming OPEC production at its targeted level of 18 million barrels a day). *Petroleum Intelligence Weekly*, in its January 13, 1986, issue, calculated that \$20 per barrel oil would result in total OPEC revenues of barely over \$100 billion in comparison to total OPEC revenues last year of over \$130 billion and, in 1980, of \$280 billion. At \$10 per

barrel, revenues would drop to \$50 billion, with demand levels still not increasing for a few years.

In such a scenario, the financial situation of virtually all indebted oil exporting countries would be jeopardized. Almost none would be able to service debt and also continue to import necessary consumer and capital goods. Political stability, already in question, would be in further danger, and bitterness among the OPEC countries toward one another and toward industrialized countries would be high.

A gentle decline in oil prices through December 1985 already brought nervousness to the international banking community and financial authorities in the United States and elsewhere before the latest price drop. A precipitous decline would create the fear of a tidal wave of bank failures, beginning with the regional banks of the southwestern United States and extending to the money-center banks as well, as the plight of debtors in the United States approaches in severity that of the developing countries.

The oil industry in the United States and elsewhere in the West will obviously be affected by a sharp drop in prices. So will the new crop of state-owned energy enterprises in the developing world. As oil prices fall toward \$10 per barrel, the oil industry will bear an increasing share of the loss; governments will have to support a decreasing share because of the structure of most tax regimes. The oil companies' capital expenditures in new exploration investments will thus decline even more dramatically.

Each of the downward pricing spirals of the past century has resulted in a massive restructuring of the oil industry and in political efforts to put a floor under prices. The international petroleum industry has just adjusted to an extraordinary transformation during the last decade. Fifteen years ago, about 80 percent of the world's production of petroleum was dominated by the large international oil companies through their international activities. Now the oil industry has become both fragmented and decentralized.

The number of important producing companies, now including national oil companies as well as those owned by private shareholders, increased several fold. Today the national oil companies command an equal footing with the majors and independents as significant market participants. The international integration that once involved production abroad and refining in one's home country has been broken. And the

number of parties participating in the international petroleum trade has increased from fewer than 20 to more than 100.

The future structure of the oil industry is by no means easy to foresee, but a radical rationalization seems inevitable. As a result of recent acquisitions and efforts to ward off corporate takeovers, the number of oil companies in the United States that have accumulated potentially dangerous levels of debt has increased. State-owned international oil companies, like Kuwait Petroleum Company and Petrobras of Brazil, which have engaged in wide-ranging international exploration, could well be giants among the survivors in the next decade. They will be joined by such companies as *Petróleos de Venezuela* as it proceeds to acquire substantially larger downstream assets in the consuming countries of Europe and North America.

The petroleum industry that will emerge from this shake-out will be rationalized along lines involving an amalgam of state-owned and private enterprises with multiple joint ventures between them.

A precipitous price collapse would, in short, carry with it revolutionary consequences that now can only be partially discerned. What can be done to guard against the most dangerous consequences of a price collapse?

VI

Various political actions have been proposed to prevent a free-fall in oil prices to the \$10 level or below. Any of them, to be effective, would require increasingly unlikely and delicate coordination between OPEC and non-OPEC countries, between producing and consuming countries, between governments and multinational companies, or among the consuming countries on their own. Failing such an unlikely coordinated political intervention, we can anticipate a radical price drop soon; prices should then hover at extraordinarily low levels for at least a half-decade. Moreover, with ample supplies and a reluctance on the part of companies to hold inventories due to market uncertainty, the oil consuming world will experience price volatility over an annual cycle in response to higher winter heating season demand for crude oil and overall lower summer demand.

In recent months a number of experienced observers of the oil industry have reminded us of the error of considering the international petroleum market to be like other commodity markets. Melvin A. Conant and Paul Frankel, for example,

have been arguing for more than a year for a substantive dialogue between OPEC and non-OPEC producers and between producers and consumers. Walter J. Levy has frequently warned that the West ought not to be lulled into a false sense of security by the oil glut that emerged after 1981. These warnings have been unheeded so far. The imminence of a price collapse reminds us that such pronouncements stem from long experience and observation of the petroleum sector and of the fragile underlying political base that has supported international oil prices over the past few years.

Analysis of the international petroleum economy and its momentous political implications is a relatively easy first step. It is quite another matter to lay out policy proposals for addressing the worst ramifications of a price collapse. If a destabilizing price collapse is to be prevented, a new regime for managing the petroleum sector is required, a regime to provide mechanisms of coordination among producing and importing countries, among consuming countries, between private companies and government companies, and between companies and governments. With all these interests at stake, no simplified solution could satisfy them all.

Yet simplified responses are what come out of politics. Thus, proposals for the immediate imposition of barriers to the import of petroleum and petroleum products into the United States are already receiving attention in the U.S. Congress. Import barriers would protect prices for U.S.-based producers and, therefore, would also protect bank loans to the oil industry. This solution has also become increasingly attractive in the United States in light of the budget deficit. Tariff barriers would raise government revenues and protect producer interests within the United States by providing a de facto floor price for petroleum production.

This policy approach had an intellectual force in the recent past, when the oil market was tight and when conservation and fuel-switching were to be encouraged. Under past conditions, an import fee would also have served to recapture some of the "rents" of oil production that OPEC countries were receiving. In today's climate, however, a unilateral import fee would create more problems than it would solve. A "go it alone" policy by the United States would actually have pernicious ramifications for virtually all the oil exporting countries of the world. It would also create significant trade frictions with our most important industrial trading partners.

In a slack market, with a supply overhang, oil would be competitively poised to enter the U.S. market at the domestic U.S. price minus the tariff barrier price. World oil prices would thereby tend to be depressed even further in any competitive effort by foreign producers to gain access to the U.S. market. In short, what might work satisfactorily in a tight marketplace would be counterproductive in a slack market. A tariff would defeat any interests the U.S. government might have in trying to assist other producing and exporting countries, such as Mexico and some of the OPEC countries. And it would completely ignore the effects that significantly lower prices would have on Britain, Norway and Canada.

It can be argued that there would be significant incentives to make an import tariff barrier multilateral by extending it well beyond the United States to include our industrial partners and Mexico as well. In all likelihood, a U.S. administration would probably seek to extend a tariff wall on a multilateral basis.

One system, in fact, is already in place through which the industrialized countries could collectively protect their gains in conservation, their future production base of petroleum and other conventional fuels, and their banking and trading system. It lies in the International Energy Agency (IEA), created in 1974 in the aftermath of the first oil shock, which includes nearly all of the 24 members of the Organization of Economic Cooperation and Development (OECD).

It should be recalled that the IEA, which is widely identified with its emergency oil-sharing arrangement, also has as a goal the promotion of petroleum resources within the IEA area. A mechanism instituted in 1974 to encourage "indigenous" IEA production was a floor under the price of oil; at that time the floor price was \$7 a barrel. Political interests could now be refocused on a minimal floor price for oil on the order of \$15 a barrel through the IEA mechanism.

In addition to protecting indigenous production and existing conservation gains, a tariff wall around the IEA to protect a minimum oil price would serve other interests as well. It would help resolve trade frictions among the industrialized countries with respect to petroleum products and petrochemicals, which are already heightened and which would be further exacerbated by a unilateral U.S. tariff. A multilateral oil tariff would serve financial interests by preventing panic and providing a rational basis for the settlement of at least a significant portion

of oil-related debt. In all likelihood, it would be a condition of any U.S. administration's consent to such a scheme that it take in all of North America (including Mexico) and potentially much of the Western Hemisphere (i.e., Venezuela, Ecuador and possibly Colombia) within the tariff wall.

The IEA solution would have a more cosmopolitan impact if Mexico were to be protected by the tariff wall. Placing an effective floor under Mexican oil prices through Mexico's incorporation in the network would, first and foremost, be of importance to the United States for bilateral foreign policy reasons. Beyond that, it would be of interest to the banking community. Mexico, Brazil and Argentina together are the three largest debtor countries, responsible for nearly 30 percent of all outstanding developing-country debt. Argentina, being self-sufficient in oil, would have no need to require inclusion under the tariff wall's protection. Brazil, as a net oil importing country, would, on the whole, be better off with much lower oil prices so long as it was able to maintain adequate incentives for domestic exploration and production. Only Mexico, among the large debtor countries, could gain substantially from inclusion in this system.

An expanded IEA tariff wall would clearly provide one of the few viable options for dealing with a price collapse, as it would help serve many highly politicized interests and take advantage of an institutional framework that already exists.

In the long run, however, a solution based on the IEA and its mechanisms would be inadequate to the tasks ahead. It would, by providing special preferential arrangements for North Sea, U.S. and Mexican oil, polarize relationships between the IEA countries and the rest of the world, in particular OPEC countries and other indebted developing countries. It would permanently solve neither the difficulties inherent in the petroleum sector, nor those in the financial and trade arenas.

An IEA solution would exclude OPEC from any role other than that of marginal supplier, or balancer, of the international petroleum market. And it would probably not serve the interests of many governments and companies whose relationships with producer governments and national oil companies have become far more complex than was the case in 1974. It is tempting, therefore, to look at an alternative approach, which has been proposed at various times during the past ten years or so: a global oil compact involving all of the major oil exporting and importing countries.

Even if a global compact among all parties concerned could be achieved in the current context or in the aftermath of a price collapse, there is a significant residue of mistrust concerning how long such an agreement could last. No one has forgotten how difficult it was for the Saudis in the late 1970s and early 1980s to induce discipline among OPEC countries to prevent prices from escalating so rapidly and to such high levels as to ensure OECD conservation, decreased demand, and the substitution of other forms of energy for oil. Nor have they forgotten how rapidly recent OPEC production and pricing agreements have disintegrated.

Western governments would understandably refuse to be involved in an agreement that would shore up OPEC countries today, since the OPEC countries would be expected to be the first to break such an agreement once the demand/supply balance tightened again. An even greater set of political forces is reluctant to engage in any market intervention, given the recollections of how market interventions have worked in the past: they have given rise to corruption, they have been unmanageable, and they have created distortions in the economy at least as onerous as the management of those interventions themselves.

None of these policy options augers well for OPEC. Nor is there necessarily a convincing case that OPEC would be able to "organize itself" to deal with the problem. The protectionist wall that will probably emerge around the IEA is also more likely to lead individual OPEC countries to try to make their own side deals with the industrialized governments in order to gain market share. Their distrust of one another, the history of failure of sustained concerted action in OPEC during the past four years, and the need of the most severely indebted OPEC countries to maximize their revenues by expanding production would, in all likelihood, keep OPEC fragmented. The prospects are therefore exceedingly low for OPEC members to act together. So, the possibility of OPEC reaching a marketing agreement with the industrial countries is also low.

VII

The main weakness in any possible market rationalization program that the consuming or producing countries, acting separately, might take relates to the structure of the international petroleum market. A coherent line of action requires strong linkages among the major oil producers in the world. It

also requires integrated linkages between upstream production activities and downstream refining and marketing operations. Neither of these linkages is strong under present conditions.

An international oil market with slack demand, such as today's, could be regulated through coordinated action by producers to shut in production and withhold excess supplies from the marketplace. Similarly, the integrated linkages between production and refining could enable the major international companies to shift their profits between production and refining activities, depending on the state of the marketplace.

In today's world, how might such a rationalization of the petroleum market and industry develop? What actions along these lines can we anticipate from the Saudis and other participants in the world oil market?

Let us take another look at the two elements that form the necessary conditions for a new rationalization of the petroleum market: coordinated production and reintegration of upstream and downstream activities.

Coordination of production on a worldwide basis has proved to be the most elusive of goals for OPEC since 1982. OPEC could not manage this on its own, as the marginal or balancing supplier to the world market. It failed in efforts to co-opt the non-OPEC exporters. And it was unable to induce cooperation from international oil companies, with whom it had severed its ties through the nationalizations of the 1970s. But a basis might well exist to crystallize a new form of production rationalization, with or without the erection of a protective wall by the IEA countries. The Saudis are one key to this issue; the other key is the condition of the marketplace today and the plight of many of the large producing companies.

Given the extraordinary indebtedness of some major oil companies, one can imagine that a precipitous collapse of oil prices might create conditions conducive to a deal between some of these companies and some of the principal producing governments, especially Saudi Arabia. Once prices collapse, some of these companies will be desperate to find ways to sell or finance their debt, as a matter of corporate survival. One can imagine a process through which an entity of the Saudi government, or of the governments of other oil exporting countries, would offer to purchase the non-OPEC reserves of these companies. For the oil exporting country, a choice would then exist; it could shut down these newly acquired reserves in

order to increase the market share from its own domestic production; or it could shut down production at home and produce from the newly acquired reserves within the protected barrier.

A related possibility would be to arrange a swap of assets between the exporting countries and the production companies. Here the same companies would gain equity access to lower-cost oil in the Middle East, while the exporting countries would gain downstream refining and marketing assets in exchange. For the companies to be induced by such a swap offer, a "kicker" would need to be offered, via lower taxes or lower costs, to provide them with higher cash flow to service their debt. So long as some reserves would be shut in, an asset swap would have the same effect as a sales/purchase arrangement between strong national oil companies and weak international oil producing companies.

If this type of arrangement were worked out on a sufficiently large scale, the objective of rationalizing production could be achieved on a global basis. Nor would such an arrangement have to be tremendously extensive. As long as two million to four million barrels of oil production were thus managed, a basis could be provided for putting a floor under oil prices through production controls, thereby benefiting most of the parties involved.

To a substantial degree the market is already creating incentives to tie together the interests of producers with those of refiners. Many of the OPEC countries have moved into downstream activities, either by building refineries in their own countries, as is the case with Saudi Arabia, or, as Kuwait and Venezuela have done, by purchasing downstream operations within the consuming marketplaces in Europe and the United States.

Crises create strange partnerships. The circumstances of a price collapse could well do this not only with respect to rationalizing production, but also with respect to reintegrating upstream and downstream operations. With an impending price collapse, the high-reserve, low-population oil exporting countries would almost certainly take further steps to integrate themselves into the consuming marketplace. The national oil companies in the producing countries would thus be assured market access as the oil market becomes reintegrated. And the companies would gain new cash replenishment via partial sale of their downstream assets. And in a price collapse, downstream

assets will have a much higher relative market value than will reserves.

The world has been abruptly reminded that the petroleum industry is cyclical and volatile. Its cycles are long term, but they involve enormous magnitudes of change in their impact on the petroleum industry itself, on oil end-users and on the macroeconomies of the world.

No commodity has been as politicized as oil. It is too fundamental to the operations of national economies for governments to allow free markets to operate without political guidance and administrative controls. Today's oil market is essentially out of control. The triumph by the marketplace over governmental intervention in the past half-decade has not brought with it the benefits of market transparency that market proponents once envisaged. It is beside the point that the reason these benefits have been so elusive is the record of politicization and interference by governments over past decades.

The question now is not whether a price collapse will create a new form of politically motivated intervention in the oil market by governments. The question, rather, is whether governments can take the necessary measures to reorient the petroleum sector in a manner compatible with all interests, guard their vested interests, and not create new impediments to market efficiency through which participants in the oil market will lose.

There are ways to build upon market tendencies to assure a rationalization of production and a reintegration of the marketplace, without which the benefits of an efficient marketplace will escape producers and consumers alike. There are ways to achieve success and avoid failure. But the question is whether governments will be able to analyze the problems at hand, in a sufficiently detached and rational manner, and thereby avoid major errors and guard their interests, as well as the interests of most producers and consumers in the world market today.

Edgardo Boeninger

THE CHILEAN ROAD TO DEMOCRACY

Chile today faces a familiar situation: a government attempting to rule the country and implement its program with the support of only a minority of the population. But the present case is different from the country's minority governments of 1964 and 1970, and far more serious. First, General Augusto Pinochet has much less popular support now than was enjoyed by either previous government. Second, Pinochet's authoritarian government, armed with a monopoly of force, is seeking to extend his rule to 1997, and to ensure military control over future governments. The 1980 constitution, rejected by opponents and widely criticized by independents as undemocratic in substance and virtually unamendable, is invoked as the legal foundation and source of legitimacy of this official scheme to cripple Chilean democracy permanently.

Although the majority of Chileans originally backed the military government, Pinochet's scheme has since provoked mass opposition, which has erupted in recent years in widespread protests, strikes and unrest throughout the country. The international isolation in which General Pinochet's regime finds itself and the worldwide repudiation that it has had to face also have done not a little to weaken its position.

Nevertheless, the Southern Cone of Latin America is not Central America, and political change in Chile will be brought about only insofar as the domestic conditions that will make it possible are present. Recent developments in Chile, especially the conclusion of the "National Accord on Transition to Full Democracy" last August, represent an important strengthening of democratic forces. They confront daunting obstacles, however, not least of which is Pinochet's determination to maintain power.

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II

At the dawn of the 1960s Chile enjoyed the enviable reputation of being one of the few stable democracies in Latin America. It ranked among the most advanced countries of the region, having attained high levels of political, social and economic development. But in the course of the 1960s a combination of historical circumstances—declining growth, rising demands, political mobilization—radically metamorphosed Chilean politics, tearing it into three blocs, no two of which could govern together. In the space of a decade, a situation of a reasonable degree of consensus and regulated conflict was transformed into one of extreme polarization, culminating in the disruption of the democratic order when the military stepped in on September 11, 1973, to topple the government of Salvador Allende.

The intervention of the military has scored deep traces on the country's evolution. It was not a neutral arbitration, a peacemaking action on a level above the conflicting parties, but rather a partisan war. The coup that overthrew Allende in 1973 followed a power struggle within the traditionally professional and apolitical armed forces. Military sectors opposing Allende emerged victorious over the "constitutionalists" loyal to him when General Carlos Prats was forced to resign as commander in chief of the army. The intervention also obviously had the blessing—to say the least—of the United States.

From the very outset, the military government interpreted its mission as a war against Marxism. It banned the Communist Party and the other leftist parties in Allende's coalition government, and jailed and persecuted their members and suspected supporters. The population, worn out by years of sharp political conflict, had in fact become largely hostile to the government. The military assumed that it would also have the support of the parties opposed to Allende, even though it dissolved the National Congress after the coup. But its severe repression and constant violation of human rights alienated the Christian Democratic Party and the Social Democratic Party, whose attitudes rapidly switched to open criticism. The military government reacted with a markedly antipolitical and antiparty bias, declaring all parties not already banned "indefinitely recessed." It also weeded out moderate officers from the armed forces and encouraged the ascendance of the hard-line element,

led by Pinochet, who was designated head of state less than a year after the coup.

The entrepreneurial sector and the political right had felt threatened by the Allende government's policies, and so they extended unconditional support to the new government. Their most eminent figures collaborated in various official capacities as ministers (Hernán Cubillos, Márquez de la Plata, Jaime del Valle and many others) and ambassadors (such as Sergio Diez to the United Nations and Francisco Bulnes to Peru), and in advisory bodies such as the Council of State (of which former President Jorge Alessandri was appointed chairman). Given this backing and the regime's anti-Marxist stance, it is not surprising that the military government roundly declared itself in favor of a free-market economy. It handed over the management of economic affairs to a homogeneous group of economists trained at the University of Chicago, whose political loyalty Pinochet could trust. They promised the "modernization" of the country, based on a set of simple prescriptions: the free operation of the market and a merciless reduction of state intervention in the economy.

The policies of this economic team seemed at first to work. A drastically restrictive monetary policy, backed by the ruthless exercise of dictatorial political power, brought inflation under control—it had soared above 500 percent per annum at the time of Allende's fall. Chile gained easy access to external credit in the period of enormous international liquidity resulting from the recycling of petrodollars; this foreign borrowing paved the way for economic reactivation. Rapid growth was accompanied by an exchange rate policy that led to an overvalued peso, and thus a vast supply of imported goods such as had never before been known in Chile. These successes in the latter half of the 1970s created widespread expectations of permanently high standards of living.

The boom years gave the Pinochet regime political leeway to consolidate its position and devise a political project that would increase its own longevity. Pinochet used his powers as commander in chief of the army to transform the military regime gradually into his own personal dictatorship. In the process, he was also committing the armed forces to an institutional, governing role that they had never previously played.

General Pinochet exercised his prerogatives to ensure the appointment and promotion of those loyal to him; thus bolstered, he took steps to guard and further augment his control,

as vividly demonstrated by his ouster of Air Force Commander General Gustavo Leigh in July 1978. Since then, there has been no effective challenge to Pinochet from within the military. The army appears to be the most loyal, but all the services have solemnly sworn to uphold the 1980 constitution, and high-ranking officers often speak out to remind the country that they will support Pinochet up to 1989. Beyond that date, continuing political loyalty to him remains, so far, an open question.

Pinochet's personal project was to retain his dual leadership of government and military. This aim was fused with the long-term project of an authoritarian or "protected" democracy harbored by both the extreme right-wing group known as "gremialistas" (led by ideologist Jaime Guzmán) and the "nationalists"; it was fused also with the Chicago economists' vision of a totally unrestricted market economy. The vehicle for achieving all three was the 1980 constitution, adopted via a controversial plebiscite that was devoid of the most elementary guarantees with respect to public liberties and independent control of the plebiscitary procedure.

The constitution's articles governing the period of "transition to democracy" provide, in effect, that General Pinochet shall hold office as president of the republic for eight years (up to 1989) and confer on him during that period almost unbounded powers constituting a legal dictatorship. The articles concerning transition further establish a system of presidential succession by plebiscite designed to ensure Pinochet's power up to 1997 and guarantee his irremovability from the office of commander in chief of the army up to 1995. In short, Pinochet has established the institutional structure to remain in power for 24 years in a country where no one before has governed for more than ten.

The constitution's articles dealing with the post-Pinochet era are equally undemocratic. These standing articles set the seal on a model that its defenders have called a "protected democracy," based on an autocratic presidential system, an explicit power of political veto for the armed forces through the National Security Council, and such restrictive rules for reform of the constitution as to make it virtually unamendable.

The promulgation of the new constitution and the elevation of General Pinochet to the presidency by virtue of these provisions marked the zenith of the military regime and of the personal power of the dictator. But the economic boom that

was the basis of the regime's popularity proved to be short-lived.

By the end of 1981 growth had given way to a profound economic crisis, from which the country is still far from recovering. Foreign credit dried up and exports fell sharply as the international economic crisis compounded the effect of an overvalued peso. The balance of payments deteriorated severely, forcing the government to reduce imports drastically. Interest rates skyrocketed, further crippling Chilean businesses. The government was thus driven to strict recessionist policies. Unemployment soared to 30 percent, bankruptcies reached an all-time high in 1982, real wages fell and GNP dropped 13 percent in 1982.

This crisis exposed the weaknesses of the Chicago model that made it extremely vulnerable to any change in the international economy, as had been pointed out at the time, for example, by the Corporation for Economic Investigations of Latin America (CIEPLAN) under the direction of economist Alejandro Foxley. These weaknesses, which the Pinochet regime has yet to remedy, include the lack of domestic saving; the overwhelming burden of servicing a debt of over \$20 billion incurred through extravagant external borrowing and squandered on imports of consumer goods; persistent unemployment of over 20 percent; the virtual collapse of the banking system; and the heavy internal debt of the production sector occasioned during the boom.

The optimism felt by vast sectors of the population in the 1970s gave way to disillusionment and frustration. Especially in the shantytown districts of the capital, unemployment, poverty and despair were rife, and their impact on youth was particularly traumatic. Chileans became aware that their current living standard was no higher than in 1969, with the aggravating circumstance that the distribution of wealth and income was much more regressive. In metropolitan Santiago, monthly consumption per family in the lowest 20-percent income bracket amounts to only ten percent of the consumption level of families in the top 20 percent. Since 1973, consumption levels of the first group have dropped 30 percent in real terms, while those of the top bracket have increased by 15 percent.

With the addition of economic failure to the violation of human rights and the lack of civil liberties, negative appraisals of the regime and demands for political change spread rapidly, repoliticizing the country. The political parties, although

banned from normal activity since the coup, had managed to survive underground and gradually regained credibility and room to maneuver. The trade unions, the colleges of professionals and the university students' associations were also revived, and most of these moved into opposition to the government.

Those who suffered the most from the collapse of the economy were the first to take to the streets in protest of the Pinochet regime, demanding economic relief. In 1983 and 1984 unions and political parties took the lead in organizing monthly mass protests, held mostly in Santiago but also in provincial cities like Valparaíso and Concepción, in which thousands of workers, students and shantytown dwellers participated. The middle class also joined the protests in significant numbers, but later began to withdraw as the combined action of political radicals, hooligans and excessive police repression led to increased violence.

At the close of four years of decline (1982–85), then, Chilean society's change of heart was so radical that opinion polls carried out in Santiago in the second half of 1985 showed that not more than 15 percent supported the government or Pinochet himself. Roughly 80 percent expressed the wish for a return to democracy before the end of Pinochet's current constitutional term in office, i.e., before 1989. In the recent nationwide elections of the College of Teachers, the pro-government candidates stood at the bottom with about ten percent of the votes. And when student elections were held across the country in 1985, not only did the government fail to win any of them, but there was virtually no candidate who could be defined as pro-government. Thus, most of those who once supported the government, however conditionally, have now lost all faith in it.

III

The political parties in Chile are practically the same as in 1973. The party system, however, is not; it is undergoing a process of evolution that, while still nascent, may be of decisive importance in facilitating the consolidation of democracy in Chile.

From 1929 to 1958, the Chilean political system was based on well-structured parties that pivoted upon the Radical Party, a moderate centrist party and the mouthpiece of a lay middle class that carried the most political weight in the country. As

the principal governing party, the Radical Party was a decisive force behind the process of industrialization based on import substitution, the economic development route taken by Chile in the 1930s when the Great Depression drastically reduced its capacity to import.

By the mid-1950s this industrialization lost impetus, giving way to an economic climate of relative stagnation plus chronic inflation. It was precisely at this time that people began escalating their demands for higher living standards and a share in political power. The working class had formed trade unions independent of the state, and militant left-wing political leaders arose from this class. The perception of crisis spread to the political elite, many of whom came to the pessimistic diagnosis that the current development model and the political system were worn out. Hence, the entire spectrum of Chilean society was transformed by the conjunction of mass politicization and economic slowdown; the center, left and right reacted to the crisis with divergent programs and intransigence.

The Radical Party's dominance of the political center ended with the entrance on the scene in 1958 of the Christian Democratic Party (DC), which espoused a new path for the country. The DC grew out of the Conservative Party but was the voice of a renovated Catholicism that, in Latin America in particular, hoisted the banner of social justice and aimed to remedy the evils of excessive inequality and poverty. Thus, the center was no longer a balancing wheel between the right and left, as it had been under the pragmatic Radical Party. The center's new leader was an ideological party with a political project of its own, presented as an alternative both to communism and to the conservative forces on the right.

The left, for its part, moved further left in response to the climate of discontent, and in 1958 the pro-Soviet Communist Party and the Socialist Party consolidated in an alliance. The Communists were always indisputably orthodox in doctrine, although in their conduct they had respected democratic procedures. The Socialists had been radicalized under the influence of the revolutionary dreams bred of the Cuban revolution, and in 1967 also pronounced themselves "Leninist."

The evolution of left and center increasingly isolated the right. In 1965 it was reduced to a minority position in Congress as political radicalization proceeded apace. Necessity led the right, previously split among Conservatives, Liberals and nationalist splinter groups, to unite in the National Party. Lacking

an alternative political project of its own, this party tried to halt the process of change.

From 1958 onward, then, political competition was waged between three exclusive blocs, each of which secured the relatively steadfast support of approximately one-third of the electorate. This resulted in minority governments: that of the right under Alessandri (1958–1964), of the Christian Democrats under Eduardo Frei (1964–1970), and of the leftist Popular Unity (UP) under Allende (1970–1973).

From the time of Frei's presidency the governing one-third had to face the implacable opposition of the other two-thirds. The governing third never showed much inclination to form coalitions that would broaden its base of support and enable the formation of an effective government majority. Nor did the Chilean presidential system encourage the formation of political majorities; a candidate winning the popular poll by a plurality, instead of facing a second popular poll, could become president by winning a congressional runoff vote. Under these conditions, the presidents, in order to impose their respective minority programs, systematically sought to reduce the faculties of an inimical Congress and use the popular legitimacy of their office to exert pressure on their adversaries.

The "revolution in liberty," as the program of structural reforms proposed by Frei was called, antagonized the Chilean right wing, whose landed interests were especially opposed to the agrarian reform (which had the backing of the Alliance for Progress). This tension between the DC and the right has persisted—although in a milder form—to the present day. On the left, Frei's program was dismissed as "neo-capitalist reformism" by parties influenced by the Cuban model; they were obliged to radicalize their positions in order not to lag behind the DC as "tenders of change."

The "transition to socialism" put forward in 1970–73 by Allende's UP was indeed more radical than Frei's policy; it ended by polarizing Chile to an extreme incompatible with the preservation of the democratic order. During its three years of government, Allende's UP put into practice a policy of state appropriation and control of the means of production, and proclaimed the irreversibility of the changes it was seeking to institute. The rest of the political spectrum felt that the freedoms of democracy were being seriously threatened. The policies of the UP totally alienated the DC, a large section of which

had initially been inclined to support a program of fundamental social change.

Furthermore, the UP government undermined the right wing's faith in democracy. This sector was faced with two political blocs that, although differing radically from each other on some issues, advocated social and economic changes absolutely contrary to the right's interests. Failing in its endeavor to halt the process of change, the right became convinced that democracy no longer guaranteed its survival as a social group. Under these conditions, all capacity for political agreement was lost, and the break-up of the democratic system seemed inevitable. This polarization precipitated the 1973 coup; Pinochet invokes this history to buttress his claim that Chilean political parties are incapable of governing. It is this burden that the parties are now confronting in their attempts to mount a credible alternative to military rule.

IV

Something is happening in Chilean socialism similar to a development in recent decades that has characterized the socialist parties of southern Europe: a progressive ideological moderation bringing socialists closer to the political center. If this tendency takes root, the left will divide between an orthodox wing and a new-style left, and thus bring an end to the irreconcilable thirds that made Chilean democracy so ungovernable.

At the same time a significant change has been taking place in the conduct of the DC, namely, a gradual abandonment of its historical leaning toward a "road of its own," which led it to repudiate any alliance with rightist or Marxist sectors. The party has now turned in favor of actively assuming the role of political bridge, a role it is called upon to perform by virtue of its location in the center of the Chilean spectrum.

The first concrete expression of these political mutations was the formation in mid-1983 of the Democratic Alliance (AD). The Socialist Party joined with the Christian Democratic Party and other parties of the center to form the AD. Drawing lessons from Chile's history, leaders of these parties decided that effective opposition to Pinochet required a coalition that would confront him with a single set of demands.

The process was strengthened by the parties' ideological moderation, an increased willingness to compromise, their joint struggle in the defense of human rights and, above all, by their

agreement on the pressing need for the restoration of democracy. The AD's leaders include Christian Democratic President Gabriel Valdés, Socialists Carlos Briones and Ricardo Lagos, Radical Party President Enrique Silva, Social Democrat René Abeliuk and Republican Hugo Zepeda. It is undoubtedly the strongest political conglomerate in the country today, representing close to 50 percent of the electorate. Though so far the parties have not committed themselves to remain united beyond the transition period, the AD is widely perceived as having the potential to become a more permanent political coalition.

The goal of the Democratic Alliance has been to achieve restoration of full democracy at the earliest possible date. Its preferred strategy is nonviolent popular mobilization in opposition to the regime to force it to step down or agree to a specific process of transition that includes restoration of public liberties, the end of Pinochet's emergency powers, constitutional reform and a timetable leading to popular elections of president and Congress.

In the summer of 1983, the economic troubles and the government's low credibility forced the regime for the first time to be more receptive to the demand for political change. The series of social protests finally obliged Pinochet to appoint as head of his cabinet a right-wing civilian politician—Sergio Onofre Jarpa—who initiated a dialogue with the AD.

Though successful in forcing the dialogue, the alliance overestimated its strength and underestimated the government's. It proposed that Pinochet resign, a drastic solution for which an appreciable part of the country was not yet prepared. Many did not clearly envisage the AD as an alternative to the military regime, perceiving it as still too fragile and tentative. Furthermore, large segments of society, including all conservative elements and a significant part of the middle class, remained fearful of the uncertainties of democracy, especially recurrent swings to radical leftism. Middle-class groups pulled out of the protests, leaving the AD without the leverage it needed in its dialogue with Jarpa. Pinochet thus regained the initiative and ended the dialogue; in November 1984 he decreed a state of siege, a form of martial law.

The failure of the AD's peaceful mobilization strategy and the intransigent character of the regime played into the hands of the Communist Party, which continues to be an important protagonist on the nation's political stage. It is justifiably in-

vested with the halo of the persecuted and collects the dividends of making the most frontal attacks on the dictatorship. Moreover, the continuing unemployment, poverty and despair contribute to political radicalization at the bottom of the social pyramid and in sectors particularly sensitive to such phenomena and to the lack of liberty, as are university students.

The Communist Party, as chief member of the political conglomerate known as the Popular Democratic Movement (MDP), pursues a twofold strategy. On one hand, it advocates insurrection and political violence by encouraging or leading armed terrorist groups such as the Manuel Rodriguez Patriotic Front; this group has claimed responsibility for a considerable number of terrorist incidents recently—causing blackouts, placing bombs in public buildings, setting fire to public transport vehicles and attacking members of the police force. On the other hand, the Communist Party preaches political unity of all anti-Pinochet forces, a proposition attractive to many who feel that an opposition unified only in its opposition to Pinochet can be effective simply by virtue of its sheer magnitude.

This two-pronged strategy seriously challenges the AD's claim to hegemony of the political opposition. The call to insurrection engages the support of the most radicalized sectors, while "unity" is a powerful slogan that has been used to considerable effect in various instances, especially in university student elections. In these, young Communists and Christian Democrats have formed alliances based not on doctrinal agreement but on the impulse to join forces against the common enemy, General Pinochet. The government takes advantage of these alliances to increase the country's conservative and middle-class fears with respect to the future of democracy. The mere unity of the opposition (MDP+AD) would not exert maximum pressure on the government because its effect would be to re-group on the side of the regime that one-third of society made up of the right wing and, generally speaking, the sectors "on the side of law and order." The AD is perfectly conscious of this phenomenon and has systematically repudiated Communist advances.

Another important trend in the civilian political arena has been the progressive disillusionment and estrangement from the regime of a substantial part of the Chilean right. Its initial, unreserved allegiance to the military government culminated in its public endorsement of the new constitution and favorable vote for it in the 1980 plebiscite. But then the economic crisis

broke out and the financial system virtually collapsed (the leading private banks were brought under government control in January 1983). With the sequels of stagnation, indebtedness of the domestic production sector and balance-of-payments crisis, the conservatives' loyalty weakened, giving way to an increasingly negative appraisal of the regime and its future potential.

As dissatisfaction, popular radicalization and social protest spread, those who had hitherto supported the regime that "had saved them from Communism" by safeguarding private property and preserving law and order began to take a different view of it. Their growing awareness of its international isolation and violation of human rights went hand in hand with incipient fears of an outburst of popular violence. In short, their eyes were opened to a regime that had no project for the future but the "empty husk" of the 1980 constitution, sustained by a merely negative anti-communism, and offering permanent war against Marxism instead of development and progress. Conservatives began to see that the prolonged retention of power by the military regime and particularly by General Pinochet increased uncertainty and the danger of an eventual leftist regression. The risks of maintaining the status quo seemed as high or higher than the risks of a return to competitive politics under democracy.

By the end of 1985 the bulk of the Chilean right had ceased to declare itself in favor of the regime; without crossing over to the opposition, it defines its attitude as independent of the government. This position has been explicitly adopted by the two political groups most representative of the right, the National Party and the National Unity Party. The only remaining avowed supporters of Pinochet are the Independent Democratic Union, espousing the "gremialismo" of ideologist Guzmán, and former Minister Jarpa's corporative or populist right-wing movement, which he is presently attempting to create. The trend, therefore, is toward the coexistence of a democratic right on the one hand, and an authoritarian right on the other, a split similar to that appearing in the left.

In sum, by mid-1985 there were three significant changes: the new orientation of the Socialist left in a clearly democratic direction, the propensity of the DC to form alliances and act as a political bridge, and the emergence of a right wing independent of the military regime.

These developments had advanced sufficiently by spring

1985 for each bloc to respond positively to a call for national reconciliation made by Juan Francisco Cardinal Fresno, archbishop of Santiago. He was ideally suited for this role. On one hand he holds the most important position in the Chilean church and, given the leading role played by the church in the defense of human rights, this enabled him to establish a good rapport with the left. On the other hand, he is reputedly a conservative priest whose appointment as archbishop had been welcomed by the government. He is therefore trusted by the right.

In March the country was profoundly shocked by the brutal murder of three well-known Communist leaders. The verdict of special prosecutor Judge José Cánovas Robles revealed apparent official responsibility for these crimes (committed by a special unit of the Carabineros, the police force); this was the first time in 12 years that a judge had implicated the military in political murders. The furor created by this report galvanized the opposition and the independent right into signing the National Accord in August 1985, which called for a transition to full democracy. It was signed by all the parties to the AD and by the National and National Unity parties. It also gained the support of the leftist groups belonging neither to the AD nor the MDP. The only abstentions were the radical left and the sectors allied to the government.

V

The National Accord is the greatest forward step achieved by the democratic forces, the potential importance of which surpasses that of any political event in the past 12 years.

For the first time, oppositionists of the left and center and independents of the right are unified in a formal commitment that is neither a political alliance nor a government program but a pact on the rules of governing. In Chile the accord has come to be described as "marking out the pitch," i.e., laying down the constitutional, political and socioeconomic bases for a future democracy, as well as the immediate short-term political measures that its signatories and adherents consider necessary and pledge themselves to respect, with the common aim of securing both a peaceful transition to democracy and its subsequent consolidation. The propositions of the accord differ notably from the official program and schedule, thus throwing into relief the isolation of Pinochet, but, in order to leave the door open for persuasion and possible negotiations between

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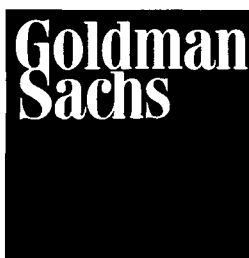
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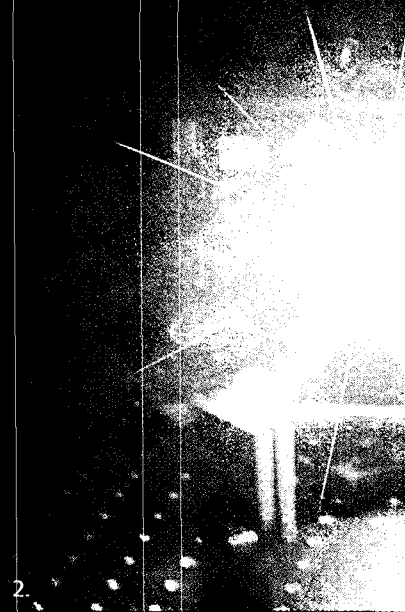
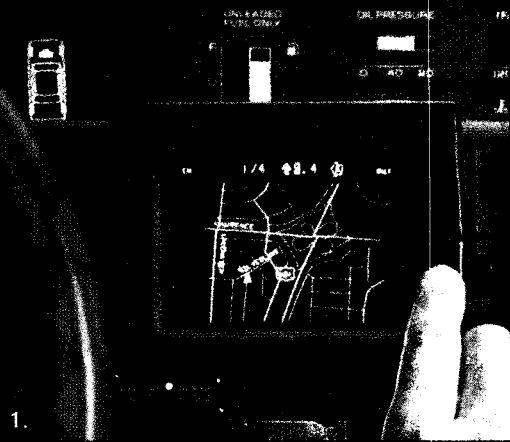
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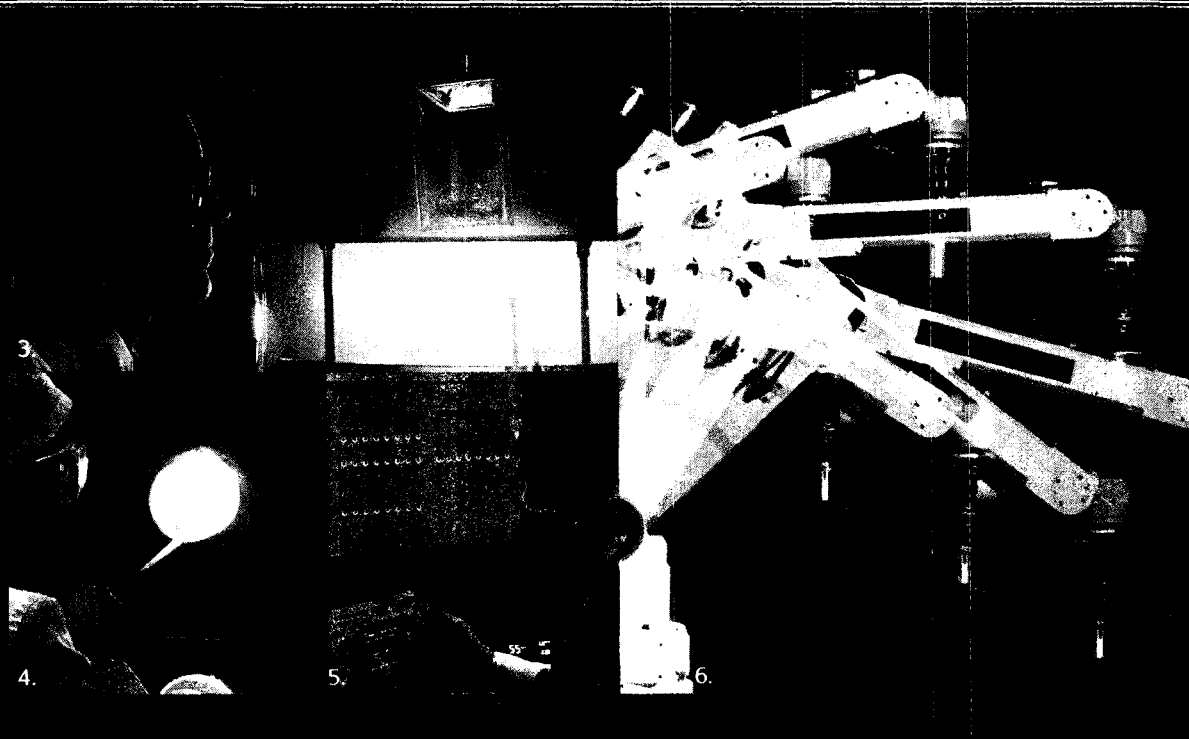
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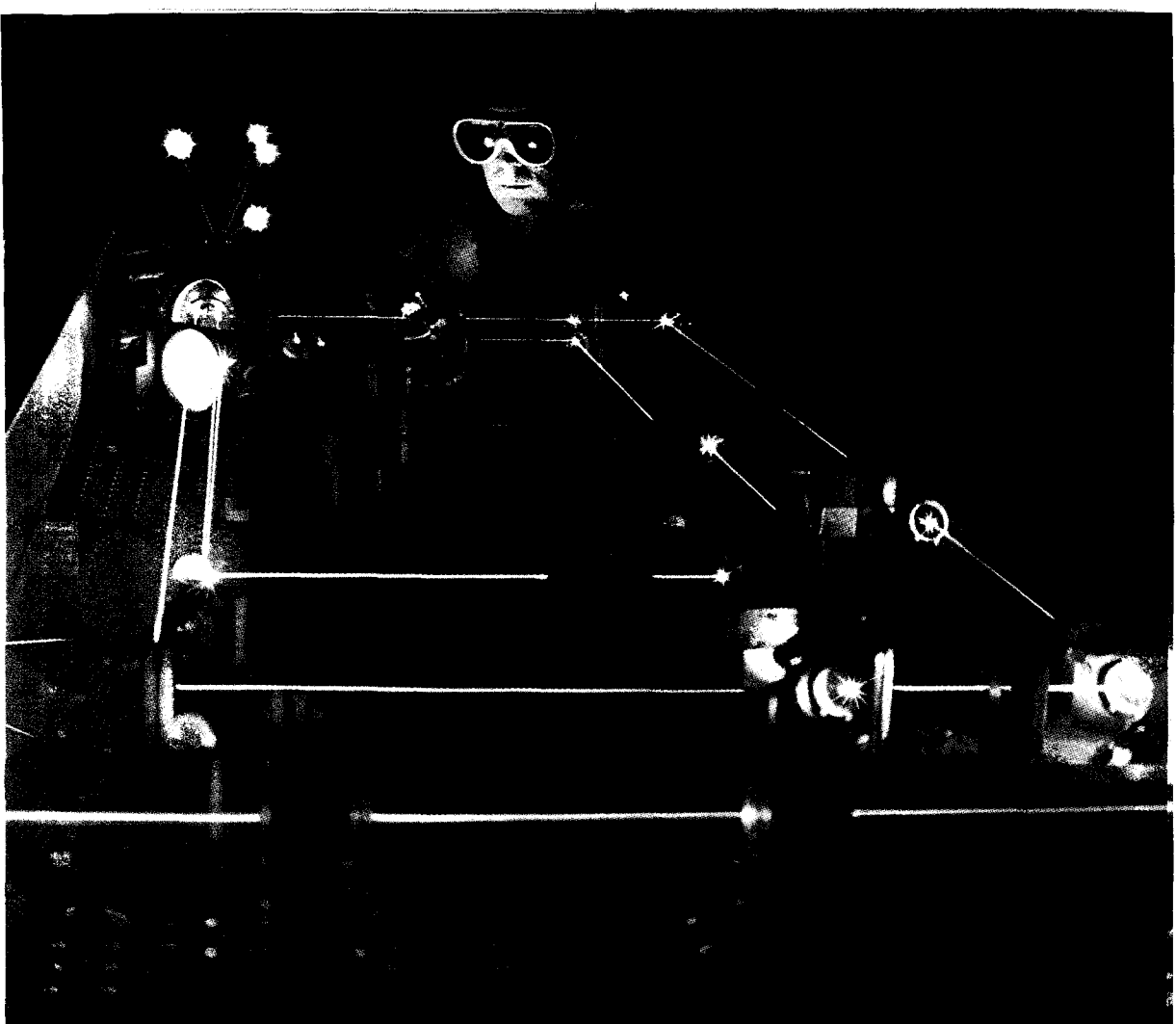
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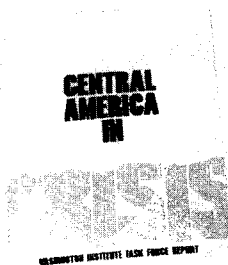
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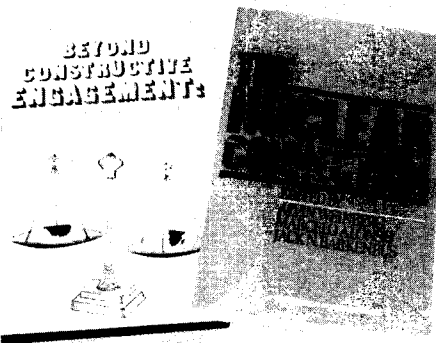
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the armed forces and the civilian population, the accord was not formulated in antagonistic terms.

The National Accord proposes minimum indispensable constitutional reforms: changing the procedure for constitutional amendments and altering the system of presidential succession. It gives guarantees in the socioeconomic field (private ownership and workers' rights); also included are matters of concern to the armed forces (support for combating terrorism, condemnation of anti-democratic coups and repudiation of every form of collective justice in cases of violation of human rights). This last is particularly salient in light of the ongoing trials of the Argentine military. Finally, the accord calls for specific, immediate measures to restore public liberties and permit a process of transition.

The National Accord had an enormous impact on public opinion and also, apparently, a considerable effect within the armed forces, as suggested by the favorable comments of Air Force Commander in Chief Fernando Matthei. The accord cannot be expected to create open conflict within the armed forces, but if it gathers momentum, it will help the more moderate elements favoring an effective return to democracy in 1989 to prevail over hard-liners bent on reelecting Pinochet. In the population at large it awakened for the first time a sense that in Chile democracy is viable and not a leap into the void, that it is a real alternative and not merely an aspiration that remains a mirage.

These optimistic signs should not give rise to the contrary illusion that the whole thing is a *fait accompli* and that a peaceful return to democracy is already assured. The National Accord, important though it is, represents only a first step and suffers from serious weaknesses. The signatories have not agreed on a strategy concerning deadlines and methods. The right-wing "independent" sectors consider that Pinochet should complete his term in office, meaning that the political change would occur in 1989. The "oppositionists" (the AD parties) on the other hand want the return to democracy to be effected as soon as possible, since both morally and emotionally they reject the idea of Pinochet's continuance in power until then, even if in private they recognize it as a possibility.

The right-wing sectors favor negotiation as the sole instrument, since they are afraid of the violence to which social mobilization may lead and with which the armed forces may respond. They also fear and repudiate the Communist Party's

leading role in social agitation. On the contrary, the AD parties—and on this issue they agree with the radical left—insist that only the persistent pressure of the entire Chilean people, a supreme demonstration of force and the will to change, would compel Pinochet to renounce the idea of remaining indefinitely in power, and would thus bring the armed forces to the negotiating table. The Democratic Alliance understands that as long as Pinochet stays in power, mobilization of the masses is inevitable. They say that if it is not channeled and guided by the moderate sectors, it will be headed by the Communist Party and its allies, which would lead to an unavoidable confrontation and even to civil war, making a democratic denouement impossible.

The government's reaction to the National Accord was prompt. It roundly and categorically rejected the accord, with the clear intention of destroying it even at the cost of increasing its confrontation with the church. The regime attempted to exacerbate the existing contradictions between the parties to the accord and to accentuate what mutual mistrust remains among those so long entrenched on opposite sides of the political battlefield. To this end, Pinochet has denounced the alliance between "democrats" (meaning the right and the DC) and "Marxists" (meaning socialists and the rest of the left) as a spurious political deal. Further, the regime has accused the accord signatories of being vague on matters such as guaranteeing property rights, outlawing anti-democratic forces and dealing with human rights abuses, thereby attempting to exacerbate the fear of conservative sectors and of the military.

Above all, Pinochet has adroitly managed to focus public debate on those issues on which the accord signatories disagree (social mobilization versus negotiation, the timetable for transition), thus creating considerable friction among the signatories. Finally, the government has denounced joint participation by Christian Democrats and Communists in social protests and student elections as proving the ambiguity and unreliability of the DC, an issue to which the right is extremely sensitive.

Thus, by the end of 1985 the National Accord had weakened Pinochet but had also been weakened itself. The government has lost credibility, but neither the Democratic Alliance, as the most likely moderate electoral coalition, nor the National Accord seems to possess as yet sufficient cohesion to enforce a political change in the immediate future, or to persuade the armed forces to hand over power in 1989 or before. To resolve

their disagreements and thereby enhance their credibility and their ability to exert maximum pressure on the regime is the task facing Chile's political elites in the immediate future.

VI

Any assessment of future possibilities entails, in the first place, recognition of the numerous uncertainties. That there is a chance of a peaceful transition to democracy is indisputable. But there are also formidable risks of greater polarization and even of a confrontation that might have catastrophic consequences for the nation.

The next two years will be decisive. The worst course would be a political standoff that would exacerbate the conflict between General Pinochet, representing a government determined to remain in power—even beyond 1989—and an opposition equally determined to overthrow him at the earliest possible date. There is clear evidence of Pinochet's absolute intransigence. He will not give up power unless he is forced to do so. This fact obliges the population—independents and oppositionists alike—to overcome the false choice between political negotiations or social mobilization. Without negotiation there can be no democratic outcome, but there will be no negotiation with the armed forces—the government—without sufficiently broad, resolute and persistent social pressure. Consequently, the challenge for the Chilean political elite is to generate peaceful social pressure under the leadership of moderate sectors, so as to unite the will of the working and middle classes around the demand for democracy.

At the same time, one important ingredient of this social pressure should be a constant endeavor by the signatories of the National Accord to establish some sort of negotiations with the regime. Only perseverance may persuade and ultimately compel those who today shun negotiations to sit down and talk. A prerequisite for achieving this will be to spell out the National Accord in greater detail, with the object of overcoming the mistrust still prevailing between the right and the AD.

One source of mistrust is the future role of the Marxist MDP forces. Formulas must be found for their future incorporation into the political process, on the condition that they pledge themselves to respect the rules of democracy. History has shown repeatedly that it is impossible to exclude significant sectors of the population from the right to political participation—and the Chilean Communist Party alone has the support

of perhaps 15 percent of the electorate. Witness the instability and lack of democracy in Argentina while Peronism was proscribed. Perhaps a solution acceptable to the armed forces could be achieved by a commitment from the AD to give up any idea of future political alliances with the Communist Party, combined with mechanisms for social participation in collective decision-making (like a European-style Economic and Social Council) that would ensure a plural voice in public affairs and thus induce the radical left to act in accordance with the rules of the democratic game, as it has done throughout most of Chile's history.

If the political process is projected up to 1989, the following alternative scenarios might present themselves.

Continuance of the regime under Pinochet. It seems unlikely—unless the worst possibilities sketched above materialize—that General Pinochet will manage to stay in the saddle beyond 1989. Both the armed forces and their civilian adherents seem to have realized that a plebiscite will not be a viable way to ratify Pinochet as president in 1989, because if the people are called upon simply to vote yes or no in relation to him, their verdict will be overwhelmingly negative.

Nor are the conditions any longer present for manipulating the plebiscite in such a way as to produce a fraudulent approval. The Constitutional Court, whose members are right-wing jurists, has decreed that the Court of Electoral Control (with independent membership provided for in the constitution) should be empowered to supervise this referendum, in contradiction of the government's interpretation. Furthermore, strong international pressure and the presence of a host of foreign observers would render an attempt at fraud difficult and certainly provocative. The downfall of Ferdinand Marcos in the Philippines is a vivid example; no one would expect fraud to be easier to get away with in Chile.

The alternative suggested by the right-wing adherents of the government is amending the 1980 constitution to hold open elections in 1989, with Pinochet as a candidate. This scenario too is highly improbable. Pinochet is not Marcos, an old hand at politics and accustomed to electoral contests, but a soldier used to imposing his dictatorial will. Moreover—and this is decisive—it is hardly conceivable that in an open election the commander in chief of the army could present himself as a candidate for the presidency, because, under the constitution in force, anyone holding office in a union or other organization

cannot even run for parliament. In other words, Pinochet would have to resign as commander in chief, losing the basis of his power and his only real guarantee of personal safety, and thus risk turning such an election—which he would not have much chance of winning, either—into a neck-or-nothing gamble.

Indirect continuance of the regime. The continuance of the regime under another army officer is also a possibility. But the high degree of personalization of power in Pinochet has prevented the emergence of another military figure of sufficient political stature to replace him. The best bet for Pinochet and the official establishment would be the election by plebiscite or direct voting of a civilian who would give sufficient guarantees of continuity of the regime and who, presumably, would pledge to retain Pinochet as commander in chief of the army. Former Minister Jarpa best personifies this alternative of a “protected democracy,” a continuance of the regime in civilian guise under which the constitution would not be amended.

Such a candidate could conceivably gain enough votes from the right if the other political forces split more sharply. This could occur if the MDP tenaciously pursues the path of insurrection, and the Democratic Alliance wavers between opposite strategies of overthrow and negotiation, driving the independent right to regard the Jarpa solution as the lesser evil. Given his militant anti-communism, Jarpa could also expect to be looked upon kindly by the United States.

Although at first glance it does not seem so obvious, the consequences of this scenario would not be essentially different from those of the first scenario. Both would produce highly dangerous outcomes. It is very unlikely that a Jarpa-type arrangement or Pinochet’s continuation in power would be accepted by the MDP or the AD. The positions of the AD and the MDP would draw nearer together, and the consequent radicalization would tend to reunify the left, pulling the leftist parties, especially the Socialists, out of the AD. On the other side, the independent right, currently a signatory of the National Accord, would be driven by fears of extremism to close ranks with the military regime as the lesser of two evils. This would inevitably lead to a future of polarization and confrontation, which would intensify the risks of “Central Americanization” of the Chilean process. The eventual denouement is unpredictable but hardly likely to be democratic.

Negotiated agreement. If the political forces that signed the

National Accord were to succeed in strengthening and broadening their areas of agreement, while leading persistent and peaceful social pressures, the most probable outcome would be some sort of arrangement between civilians and the armed forces—against the wishes of Pinochet—that would find expression in a candidate acceptable to everyone as well as in agreement on a body of constitutional reforms. The political transition would be brought about by direct election or even (although it seems more difficult) in accordance with the plebiscitary procedure currently in force. In the first alternative, the candidate put forward by consensus would be almost certain of election because of the magnitude of the support pledged, even though he might have to face one or more rivals from the extreme right and/or the extreme left.

Triumph of the Democratic Alliance. If the AD manages to gain enough strength to impose its hegemony over the civilian spectrum by controlling social mobilization and annulling the revolutionary strategies of the radical left, the armed forces might accept an open election that an AD candidate would have the best chances of winning. This formula is not impossible, but it too would undoubtedly be difficult, since it implies a political strategy in which the AD both does without the right and succeeds in relegating the MDP to a minor role in order to forestall a veto by the armed forces. This would mean that MDP either abstains from participation in the election, unconditionally supports the AD candidate or fields a “non-contender” candidate of its own.

Overthrow of the regime by popular rebellion. This is the main strategy of the Communist Party, because it opens up revolutionary prospects after the Nicaraguan fashion and is the counterpart of the scenarios assuming direct or indirect continuance of the regime. Its likelihood would undoubtedly increase if Pinochet succeeded in holding on beyond 1989, since in that event every other moderate alternative would have fallen into utter discredit.

Of the scenarios expounded, only the third and the fourth are conducive to democracy. In the other cases the results are uncertain, but the polarization they would bring about is hardly compatible with a democratic outcome.

VII

No mention has been made of the role in the Chilean democratization process that has been and may be played by

the democratic nations of the West and especially the United States. This does not imply any disparagement of the contribution that can be made to this process by other countries. The fundamental and long-term requirement for democracy in Chile is the resolution of domestic divisions; the continuation of this project, now under way, depends primarily on Chileans. However, the United States in particular can further it in important ways:

First, by transmitting clear messages to the effect that the United States is awaiting a return to full democracy in Chile and has confidence in the Chileans' capacity to consolidate a stable form of democratic coexistence. Such messages, which have gained appreciably in clarity since the arrival of Ambassador Harry Barnes in Chile, have a significant impact on the perceptions and behavior of those actors most sensitive to U.S. positions, such as the political right, the entrepreneurial sector and the armed forces themselves. Naturally the United States will be all the more disposed to issue such messages, the more assurance it feels that the country will opt for a moderate way out. Also, it is essential that U.S. policy find similar expression at the various levels on which formal relationships with Chilean counterparts exist, particularly between the U.S. military and their Chilean colleagues.

Second, by exerting effective pressure, certainly short of intervention, for a full guarantee of respect for human rights and restoration of the public liberties in Chile. Only if these conditions are met will Chileans be able to determine their own destiny. Otherwise, the problem will be resolved by force, whether through military imposition of the system of "protected democracy" or through an insurrection led by the radical left in the name of "people's liberation."

Third, by using persistent persuasion to convince the Chilean government that fair and free elections are the only way to avoid an indefinite future of strife and confrontation.

In my opinion the depth of the crisis, the magnitude of the economic challenges and the demands of reestablishing harmonious coexistence among Chileans justify, in a first phase of democracy, the formation of a broad coalition with the participation of forces from the center, the democratic left and the democratic right. Its task would be to re-launch democracy, with the joint effort of all Chileans. Under such a program the guarantees of private ownership and of free enterprise required by the right would have to be made compatible with a pact for

social justice, that is, a commitment to solving the problems of extreme poverty, marginality and gross inequality that plague Chilean society. This concept, sponsored today by the Socialists, is shared by the DC and the other parties to the Democratic Alliance, and is one that a renovated and modern right should also adopt.

Creating a grand alliance would require maximum cooperation among the political elites. Is such a coalition too complex for present-day Chile to achieve, or, on the contrary, does it oversimplify the issues we must face as a nation? Time will tell, but Chile is certainly a case in which an effective “agreement on fundamentals” is a basic requirement for democratic stability. In turn, in Chile, such agreements can only last if sustained economic growth goes hand in hand with a more equitable distribution of opportunities and rewards.

Mark Falcoff

CHILE:
THE DILEMMA FOR U.S. POLICY

The recent collapse of personalist dictatorships in Haiti and the Philippines has served to remind Americans that since World War II, some of our most grievous foreign policy wounds have been inflicted not by adversaries but by self-styled (and self-seeking) friends. Though nothing is inevitable, and no two situations are exactly alike, it is difficult to ignore the intimate, indeed inextricable, relationship between the collapse of Chiang Kai-shek and the rise of Mao Zedong in China; of Fulgencio Batista and Fidel Castro in Cuba; of Anastasio Somoza and the Sandinistas in Nicaragua.

Generically speaking, the dilemma can be stated quite simply: when all avenues of political devolution in a Third World society are closed, the moderate center is the first casualty. The United States is then left to choose between polar extremes, one of which is unviable, the other unacceptable. By that time its own preferences are somewhat beside the point, and it usually ends up getting both. There is no easy solution to this problem, but recent experience suggests one prescription at least—the need to act before matters reach the point of no return.

Such is the challenge to U.S. policy in Chile today—to persuade a military dictatorship to return power to civilian, democratic forces before that government loses all control of the situation, and also before the acceptable alternatives are deprived of all credibility by forces allied to Cuba and the Soviet Union. The task is neither simple nor easy, and fraught with particular poignance given the background of Chile's own democratic past, its place within the region, and its special relationship with the United States.

At this point the principal obstacle to Chile's expeditious

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return to democracy is General Augusto Pinochet, who has ruled the country since 1973, and appears determined to perpetuate his power by means of the 1980 constitution. This document makes it possible for him to remain president-dictator for life, to be followed, apparently, by a regime in which an emasculated parliament will coexist with a militarized executive.¹ It is expected that Pinochet will be the candidate nominated by the junta for the 1989 plebiscite. If he proves victorious, his term will be extended to 1997, when—health permitting—he will be eligible for another eight-year period, which is to say, until 2005. It is to these arrangements that Chilean diplomats refer when they claim that their government already has plans for a “democratic transition.”

For its part, the vast majority of Chile’s political community has passed into opposition. After a long period of internal squabbling, these groups signed a “National Accord on Transition to Full Democracy,” drafted in August 1985, which advocates the incorporation of truly democratic features into Pinochet’s 1980 constitution. The accord brings together an unusually broad range of political forces and personalities, including ex-functionaries of the Allende regime and former supporters of Pinochet. The document was abruptly rejected by the Chilean government, however, within hours of its delivery to the Interior Ministry.

Meanwhile, the Chilean Communist Party and its allies have assumed a posture of extreme militance, calling for the overthrow of the regime by any means necessary. Through the Manuel Rodríguez Patriotic Front, they have engaged in terrorism and political assassination, as well as acts of industrial sabotage. Though historically strong in certain trade unions, the party is now growing in two areas where it was weak prior to 1973—the universities and the squatter settlements surrounding Santiago and other cities. Its decision to remain apart from the National Accord, while momentarily convenient for the moderate forces of the opposition, suggests that it believes the government’s plans for the future will prevail, and is positioning itself for a later, more confrontational phase in which its less radical rivals will have been discredited.

¹ For a fuller explanation of the provisions of this charter, see Mark Falcoff, “The Coming Crisis in Chile,” *Policy Review*, Fall 1985, pp. 18–26.

II

As a small, remote and vulnerable country, Chile has sought historically to strengthen its international posture through carefully managed alliances with distant nations—principally Great Britain in the nineteenth century, the United States in the twentieth. The complex mix of factors that has shaped U.S.-Chilean relations since the First World War includes geographical, naval, military, economic and political considerations. While elements of all survive into the present day, over time the U.S. emphasis has periodically shifted, a fact that Chileans seem often not to recognize. Instead, they prefer to regard each separate interest as an undifferentiated accretion to a huge structure. This has the effect of exaggerating the country's importance to the United States and introducing some curious distortions into the bilateral relationship.

Probably the heyday of the relationship was the period between the two world wars, when American capital and engineering expertise developed a modern, large-scale copper industry, and with it, the income for Chile to finance its government budgets for more than two generations. By the end of the Second World War, in spite of distances and evident cultural differences, the United States was clearly the country to which the preferences of the Chilean elite—and even selected members of its (then small) middle class—were most attuned.

Whether it was the economic relationship *tout court*, or some more diffuse sense of congruent interests, Chile began to follow U.S. international policies somewhat closely during World War II and into the postwar decade, even to the point, in 1947, of reflecting the U.S. stance in the emerging cold war by outlawing its local Communist Party. In the 1950s, however, relations entered the doldrums as U.S. interests, economic and other, were turned to the rebuilding of Western Europe. It was during this period, also, that for the first time some Chilean politicians began to call for the nationalization of the copper industry.

Then, suddenly, U.S. interest in Chile was rekindled by the Cuban revolution, which seemed to offer Latin Americans a new model of development based on a politico-military alliance with the Soviet Union. The Kennedy Administration responded in 1962 with the massive aid-and-reform program known as the Alliance for Progress. Chile eventually became the largest single recipient of Alliance largesse, principally

because that country's democratic political traditions—then almost unique in Latin America—presumably made it the most appropriate theater in which to meet Castro's challenge to Western ideals. Moreover, a new and dynamic Chilean political force emerged in the late 1950s, the Christian Democratic Party, which articulated a moderate alternative for those favoring economic and social change.

During the 1960s U.S. involvement with the Christian Democrats was something more than platonic. The Central Intelligence Agency, following a pattern established in the struggle against Communist parties in postwar Western Europe, provided significant financial assistance to the party in the 1964 elections, making possible the landslide victory of President Eduardo Frei (1964–70). Though this had the practical effect of denying the presidency to Marxist Salvador Allende, the candidate of the Communist-Socialist coalition, it also laid the groundwork for a victory of the left six years later. On one hand, the rhetoric of Frei's program ("a revolution in liberty") raised expectations far beyond his capacity to satisfy them and provoked a sharp movement to the left within his own party; yet on the other, his steadfast adherence to such Alliance goals as tax and land reforms alienated conservatives who had voted for him in 1964 only as the lesser of two evils. Thus in 1970 the right ran a candidate of its own, splitting the presidential vote into thirds. The winner—by a tiny margin—was Allende.

His 1970 victory came as a shock to the United States, which had invested far more than money in Frei's experiment. It also stunned the Christian Democrats, who were still the largest party in Chile, and expected to remain so permanently. For its part, the new coalition of Socialists, Communists and populists that supported Allende, flushed with triumph and convinced of its historical inevitability, sought to pervert the country's democratic institutions in such a way as to accomplish a "transition to socialism" virtually over the heads of the Chilean electorate.

Faced with what appeared superficially to be a "democratic road" to Marxism, the United States set about sustaining those forces capable of resisting its consummation. During the three years of the Allende regime, the Christian Democrats and the opposition in general were sustained by some \$8 million in CIA disbursements. This support prevented the government from using the weapon of nationalization to liquidate the economic base of its opponents, and assured the survival of an opposition

press and electronic media. Shortly after the armed forces overthrew Allende in September 1973, however, such CIA subsidies ceased. Following investigations by a select committee of the U.S. Senate in 1975, the agency lost the tacit congressional approval under which such covert aid had been dispensed, and that, presumably, is where matters remain today.

These events, however remote to most Americans, remain vivid in the collective memory of both the Chilean government and the political class, and continue to shape their views of the United States and the bilateral relationship. One could argue that Chile itself occupies a far less important place in U.S. Latin American policy than it did a decade or two ago; nonetheless, given the level of involvement, which was unusually intense for the region, it is not surprising that so many people continue to filter their perceptions through the prism of recent history.

The result is that all events in Washington concerning Chile, no matter how minor, are vastly inflated by the Chilean media. Some, of course, like votes at the international financial institutions, are genuinely serious matters. But others of more questionable import—pro forma declarations, diplomatic courtesies, routine visits by U.S. officials and flag officers of the armed forces, even offhand remarks—are subject to endless interpretations, in which the United States is either seen as reaffirming its iron support for the dictatorship, or in the process of revising its policy and therefore guaranteeing Pinochet's ultimate collapse. Unfortunately, the problem is not merely intellectual: U.S. intentions, however symbolically expressed, and whether accurately perceived or not, are regarded as an independent variable in the Chilean political equation, and so, perforce, they are.

The truth is, of course, that U.S.-Chilean relations since the 1940s could be described as having been shaped somewhat blindly by events elsewhere: World War II, the cold war, the Cuban revolution, Vietnam, Watergate or, latterly, by events in Nicaragua, Iran and Afghanistan. This has not prevented both government and opposition in Chile, however, from seizing upon these broader patterns of U.S. foreign policy to reinterpret local events each according to its own peculiar needs.

At the same time, Chileans of all political persuasions have often failed to appreciate the way in which American interest in their country has changed over time. Since the nationalization of copper by the Christian Democrats in 1969, the major

American investment exposure in the country has shifted from minerals to financial services. The country continues to provide an important market for U.S. exports, but, in spite of remarkably generous incentives, it has not attracted significant amounts of new fixed investment. To some degree this is due to apprehensions about the eventual outcome of the current political struggle, but even more to a fall in the price of copper, the country's principal source of foreign exchange, and to the weight of a foreign debt that is, on a per capita basis, one of the highest in the world.

The United States has a military-strategic interest in Chile due to its critical location at one of the two all-water routes between the Atlantic and Pacific Oceans, and the only one not capable of being sabotaged out of existence. It also possesses a very seaworthy navy, which participates annually in joint maneuvers (UNITAS) with its American counterpart. These factors are assigned fairly high priority by the U.S. Navy, and the Defense Department in general, but an arms embargo, in place since 1976,² has eliminated the one major lobby—manufacturers of sophisticated aircraft, naval communications systems, and so forth—that could be expected to have a vested interest in indiscriminately good relations with the Pinochet regime.

Even within the Latin American context, Chile no longer enjoys its former pride of place. Democracy is now the order of the day in most hemispheric nations, including some with extremely problematic political histories. Moreover, the growing trend toward nonalignment, even in republics with conservative governments like Colombia, suggests that a return to democracy in Chile will not necessarily betoken a resumption of a special security relationship such as drove bilateral relations in the past.

The principal importance of Chile to the United States at this time is, in fact, ideological. Liberals regard it as a treasured exhibit in their case against the anti-communist thrust of post-war U.S. foreign policy: the extinction of democracy there proves the unmitigated evils of covert action. In a somewhat more extreme but also widely shared version, the persistence of the Pinochet regime is a demonstration that the logical and perhaps inevitable alternative to Marxism in the Third World

² Section 406 of the International Security Assistance and Arms Export Control Act of 1976 (the Humphrey-Kennedy Amendment).

is some sort of fascism. Moreover, to the degree to which "business as usual" prevails, or appears to prevail, in day-to-day U.S.-Chilean relations, it belies the assertion that the goal of U.S. policy in Latin America is the restoration or nurturing of democratic political systems in such places as Nicaragua.

American conservative thinking on Chile has gone through three distinct phases. First (1973-77), the collapse of democracy in Chile was regarded as a devastating critique of Allende's reckless socialist-populist economic and social policies (which it was). During this period, however, many conservatives were so repelled by his regime, and so relieved by its disappearance, as to overlook, sometimes scandalously, the vast human costs that attended its extinction.

Second (1977-81), Chile was discovered as the venue of a promising new experiment in free-market economics. During this brief but unforgettable period of economic boom, it was possible for conservatives to identify several positive political trends, including the release of all political prisoners being held without charges in 1976, and an amnesty in 1978 that allowed most remaining prisoners to be released or go into exile. These developments, however, while salutary, were not part of a larger design to dismantle the Pinochet regime, even over a fairly extended period, but rather an indication of its overweening self-confidence. When the financial bubble burst, these modest steps toward liberalization were halted or reversed.

In the third phase, begun in 1982 and not yet completed, conservatives have begun to wonder aloud whether the problems the United States presently faces in Nicaragua might not have been avoided by a more timely and decisive turn away from Somoza. Though there are great differences between the two countries, for purposes of broad foreign policy conceptualization, recent events in Managua serve as a warning of what could happen in Santiago. And, to some degree, Washington's willingness to reexamine its assumptions about Chile reflects the change in conservative thinking there, where many of those political forces which supported the coup against Allende have, one by one, passed over to the ranks of the opposition. The emerging congruence of Chilean and American opinion on the nature of the dictatorship still begs the question, of course, of what is to be done to effect an orderly and peaceful transition toward democracy.

III

The notion that the United States regards the Pinochet dictatorship as a privileged ally—however often claimed by the regime itself or, for that matter, by its opponents at home and critics abroad—is very wide of the mark.³ What is true, however, is that neither the Carter nor the Reagan Administration has found the right combination of incentives and sanctions to compel or persuade the Chilean armed forces to return power to a civilian, elected government.

The Carter team came to office at the high-water mark of national revulsion over Vietnam, and important components within it were possessed of a deep sense of shame for the U.S. record during the cold war, particularly with respect to small, non-Western nations. This broadly revisionist view had some very concrete policy implications for countries where the local government was regarded as a legitimate interlocutor—Panama (the Canal treaties), Cuba (the normalization of diplomatic relations), and Vietnam (reconciliation and perhaps even reparations). But where, as in Chile or Guatemala, the regimes in place were not viewed as being “on the side of history,” it was far less clear how U.S. goals could be advanced. In the end, a temperamental reluctance to resort to the traditional instruments of great-power diplomacy, such as covert action—a reluctance all of a piece with its wider philosophical perspectives—led the Carter Administration to take refuge in purely punitive policies rather than actions designed to achieve explicit goals.

Thus, to the embargo on arms sales and the training of military officers in place since 1976, the United States added some economic sanctions. U.S. representatives at the international financial institutions systematically opposed new loans to Chile whenever such credits were brought to a vote. For the first time the United States supported the creation of a special rapporteur for Chile at the U.N. Commission on Human Rights, where U.S. representative Brady Tyson publicly apologized for the role his country had allegedly played in bringing Pinochet to power in the first place. On a more symbolic level,

³ Chilean diplomats are well aware of this fact since they must manage the bilateral relationship on a day-to-day basis. Foreign Minister Jaime del Valle even let slip recently (June 1985) that “the United States has continually mentioned the importance it attached to democracy . . . they have always said it and endorsed it on every occasion. We cannot deny it.” Radio interview, *FBIS Daily Report, Latin America*, June 12, 1985.

key opposition leaders were received, some for the first time, at high levels in Washington. And in 1979, after the Chilean Supreme Court refused to extradite individuals allegedly involved in the Washington murder of Orlando Letelier, a former official of the Allende government, and his American assistant, Ronni Moffit, the Carter Administration took further measures. The U.S. mission in Santiago was reduced by approximately one-fourth; all military sales still in the pipeline were terminated; the U.S. military mission in Chile was recalled; new Export-Import Bank lending and Overseas Private Investment Corporation (OPIC) guarantees for Chile were explicitly forbidden.

If the purpose of the Carter policy was to make it impossible for the Pinochet government to claim that it enjoyed U.S. support, then it succeeded brilliantly, with residual benefits for American credibility throughout Latin America. It also raised the morale of the democratic opposition within Chile at a particularly crucial point and, it is often claimed, even saved lives. But if its intent was to advance Chile closer to democracy, it was at best irrelevant. Rather, the Carter years coincided with the steady advance of Pinochet to unquestioned supremacy within the Chilean military and, therefore, within the country. Meanwhile, by challenging him without success, President Carter unintentionally taught his Chilean counterpart something he had not known up till then—namely, that it was possible to defy the United States and not merely survive but even prosper.

The advent of a conservative Republican administration in early 1981 led the authorities in Santiago to imagine that their problems with the United States were over, and that all of the obstacles which the Congress had placed in the way of the bilateral relationship in the late 1970s, particularly in the military-to-military areas, would forthwith be removed. Such assumptions were based, however, on crude extrapolations of the broader foreign policy rhetoric of the Reagan campaign, not upon specific assurances or even a general consideration of U.S.-Chilean relations.

To be sure, the Reagan team approached Chile—as it did Argentina, South Africa and the Philippines—from a very different perspective than its predecessor. It rejected the view that those regimes in the Third World which openly declared their hostility to the United States were somehow the wave of the future; unfortunately, this allowed others to draw the

inference that those allied with it automatically were. The Reagan Administration was also influenced very strongly by the experience of Iran and Nicaragua in 1979, where a failure of nerve had led its predecessor to abandon two traditional allies, at a cost that was prohibitively high not only for the United States, but for the people of those countries. As Jeane J. Kirkpatrick argued in a now-famous article that became the cornerstone of the new Administration's foreign policy, authoritarian regimes, though brutal enough with individual dissidents, lacked the capacity or even the desire to revolutionize society from top to bottom, and therefore were unable to perpetuate themselves in a way characteristic of their totalitarian analogues.⁴ In spite of the vituperation subsequently heaped upon this argument by its critics, it rested upon some very firm empirical foundations, particularly in Latin America.

The problem for the Reagan Administration was that Chile did not fit, except very superficially, within this analytical framework, and therefore doomed attempts at "quiet diplomacy" from the very start. An almost inevitable bias toward eventual political devolution is characteristic only of military regimes where the leadership is collective—as in the recent cases of Ecuador, Brazil and Argentina. Chile is ruled not merely by a highly personalist dictatorship, but one with a carefully worked-out vision of the future. This point is utterly essential to understanding the internal logic of the Pinochet regime: even relatively "favorable" developments (a periodic decline in repression, the occasional release of political prisoners) can only be understood by placing them within the context of its longer-range perspectives.

It is not surprising that the Reagan team initially misconstrued the direction of the Pinochet regime, since in 1979 and 1980 those who would become its members were frequently assured by Chilean diplomats and private citizens that the new constitution (then being drafted by a Council of State) would provide the framework for a genuine, if gradual, transition. There was much talk of the relegalization of political parties and of the resumption of elections, first at the municipal level, then through province and region, finally reaching the summit of national authority. To those who knew something of Latin America, it sounded a bit like Brazil. Such features did reportedly figure in early versions. But by the time the new charter

⁴ "Dictatorships and Double Standards," *Commentary*, September 1980.

had passed through the editorial hands of the president himself, they were nowhere to be seen and, six years hence, are yet to be announced.⁵

Moreover, in 1979 and 1980 Chilean officials repeated to all who would listen that it was unrealistic to expect their government to respond constructively when the United States pursued its agenda in a crude and undiplomatic fashion, which in any case only served to strengthen President Pinochet's resolve and undermine putative "moderates" within his inner circle. Accepting the challenge, the Reagan Administration relaxed some of the punitive aspects of the Carter policy, removing two of the sanctions imposed in connection with the Letelier case—the prohibition on Eximbank lending, and the participation of the Chilean navy in UNITAS exercises.⁶ (Because of congressional resistance, the Reagan Administration did not, however, provide the "certification" necessary to resume arms sales or the training of military personnel.)

The United States also resumed support for Chilean loans from the multilateral banks and assisted in periodic refunding of its national debt, although the latter was dictated more by considerations of international financial stability than political solidarity. None of these measures received the slightest sign of reciprocity. Instead, the patience and good faith of the Reagan team and the incidental convergence of U.S. and Chilean foreign policies (on opposition to international communism) were willfully and publicly misinterpreted by the government in Santiago as a tacit sign of approval for its actions and acceptance of the arrangements outlined in the 1980 constitution.

In truth, the closest thing amounting to a political opening in Chile since the coup—a brief but ultimately fruitless dialogue between Interior Minister Sergio Jarpa and representatives of the opposition Democratic Alliance in 1983—was wholly unscheduled, and certainly not a result of U.S. policy.

⁵ Elections were reinstituted in the trade unions and the universities.

⁶ As Acting Assistant Secretary for Inter-American Affairs John Bushnell remarked, these sanctions tended to weigh more heavily upon the interests of the United States (its exporters on one hand, and its navy on the other) than on those of Chile. *U.S. Economic Sanctions Against Chile*: Hearing before the Subcommittees on International Economic Policy and Trade and on Inter-American Affairs of the Committee on Foreign Affairs, House of Representatives, 97th Congress, 1st Session, Washington: G.P.O., 1981. It is perhaps worth noting that the Reagan Administration by no means considered the Letelier case closed, and Assistant Secretary of State Thomas Enders specifically raised it with President Pinochet on his visit to Chile in late 1981.

The dialogue was prompted by a decline in copper prices that had begun in 1981, a generalized collapse of local credit, widespread unemployment and massive protest demonstrations; it ended in a ministerial shuffle and a state of siege.

The United States lent moral and political support to the brief political "opening," but having done nothing to bring it about, could not save it when it faltered. Nonetheless, this period marks a turning point in Washington's thinking: if no forward movement in Chile could be obtained within the framework of a formal dialogue, still less could be expected in a climate of official repression and renewed rigidity.

The state of siege was lifted only in July 1985, and then only under a specific threat by the U.S. government to oppose the refunding of Chilean loans at the World Bank. At about the same time, the Weiss Amendment was introduced in the U.S. Congress, which called for the resumption of Eximbank and OPIC sanctions and mandated negative votes at the multilateral lending banks.⁷ It lacked the bipartisan support necessary for passage, but anti-Pinochet sentiment was mounting in Congress and the Administration. When the Chilean president rejected the National Accord, the balance suddenly and definitively tilted against him.

IV

The failure of both the Carter and Reagan policies can be explained partly by an indiscriminate reliance on either punitive actions or friendly persuasion, with only the most general notions of what was expected in return. But in large part it can also be attributed to the peculiar ideology of the Pinochet regime.

Hard-liners who reflect the Chilean president's personal views often boast that they do not need good relations with the United States to survive. At the same time, however, they desperately desire those good relations, as if their survival did in fact depend upon it. Above all, for the Chilean military, arms acquisitions and the training of officers in the United States represent an ideological acceptance of the fact that it is at war with the Soviet Union, and as such, an ally in the East-

⁷ Earlier in 1985 the United States protested the state of siege by abstaining from voting on loans to Chile at the Inter-American Development Bank. House Continuing Resolution 52, calling for the restoration of democracy in Chile (99th Congress, 1st Session), was sponsored by Rep. Ted Weiss (D-N.Y.) and others.

West struggle. This apparent contradiction is a product of the permanent insecurity that any undemocratic government necessarily feels, heightened in the Chilean case by the concrete presence in the country of Soviet- and Cuban-supported terrorist elements, and by the international campaign against it, in which communist parties are the most active (though by no means the only) participants.

This world view has tended to invalidate whatever policies the United States has chosen to follow over the past nine years. Thus, when Washington was engaged in open opposition and international confrontation with his regime, Pinochet took refuge in the notion that the U.S. government (perhaps infiltrated by Marxists) was incapable of pursuing its own national interest; hence, there was no need to do it any special, costly favors. But a policy of quiet diplomacy was interpreted as a tacit acceptance by the Reagan Administration of Chile's struggle as its own, and therefore there was no need to do it any special, costly favors either. To break this stalemate remains the principal challenge to U.S. policy.

Pinochet's own agenda for the next three years could not be clearer: to survive until the 1989 plebiscite, which he presumes will enshrine him and his system once and for all time. To do this, however, he needs to divide the opposition, to assure a level of subversive activity and violence that is controllable but sufficiently frightening to drive hesitating Chileans back into his camp, and to defuse the potential role of the United States as an ally of the democratic opposition.

Simply by refusing to engage with the signatories of the National Accord, the regime has revived some of the issues which have divided the opposition in the past, particularly its relationship to the Communists. The Socialist Party, which has a long history of collaboration with them, can only hope to occupy the Chilean presidency in the future if the old alliance (such as made possible the Allende experiment in 1970-73) can somehow be revived. Moreover, the Communists can offer skills in mobilization which a minority of opposition leaders regard as essential, so that there is a continual discussion of whether and how the Communist Party might be convinced to re-embrace its former (pre-1979) "non-violent" formula. As of February 1986, the Socialists were threatening to leave the National Accord unless the democratic opposition assumes a more flexible attitude toward the Communist Party. On the other hand, at this point Chilean opinion remains firmly op-

posed to communism and the party, and the armed forces will not countenance opposition agendas as long as there is any doubt on this issue of collaboration. Hence, any opposition tendencies toward rapprochement with the party tend to serve Pinochet's purposes within the military. They also threaten to drive a wedge between the United States and the parties of the National Accord.

If it becomes clear that all peaceful avenues for change are closed, subversive activity is bound to accelerate in the future. Quite apart from the more or less spontaneous growth of revolutionary cadres, and the important inputs from outside Chile which train, arm and fund many of them, the government itself is not above staging events (such as electrical blackouts in major cities or the bombing of public buildings, where the victims are innocent civilians) to underline the need for continued military rule.

Having exhausted its lines of credit with the Reagan Administration and the Republican membership in the Congress, the regime is now attempting to buy an additional three years of acquiescence with the suggestion, at times almost the veiled promise, that Pinochet will not be the candidate of the junta in 1989. Instead, a conservative civilian such as former Foreign Minister Hernán Cubillos or former Interior Minister Sergio Jarpa would be put forward by the junta, be approved by plebiscite and, once in office, dismantle the machinery of the dictatorship, much as Adolfo Suárez did in Spain during the 1970s.

Functionally, this scenario serves the same purpose as earlier discussions of the constitution during its 1979–80 gestation period: to take advantage of a generalized ignorance in the United States of Chilean affairs, and to play upon the desire of American conservatives to believe the best of people who proclaim themselves as allies. However, even if Pinochet were to retire in 1989 (something, by the way, utterly at variance with the entire pattern of his career and everything that is known of his personality), this scenario still begs some very crucial questions: where the former president himself will go; what role he (and the armed forces) will play in Chilean politics; and how the nation will fare under an undemocratic constitution which Cubillos, Jarpa (or someone else) will be called upon to enforce, not dismantle. If those who claim to favor this course were really serious, they would be grappling with these issues now, not postponing them to 1989 or beyond.

There is little doubt that in 1986 and 1987 Congress and the Reagan Administration will once again examine their options in Chile. The Weiss Amendment, which failed last year, would have no difficulty winning congressional approval today. Indeed, after the Chilean government's abrupt refusal to discuss the National Accord, it seems likely that in the future such bills will seem mild in retrospect. If the South African metaphor is at all useful, as things worsen Santiago can expect more ambitious legislative projects, reaching far beyond anything the Carter Administration ever contemplated. These include proposals for a copper embargo, disinvestment and a ban on new private lending. How far the ratchet of sanctions is turned will depend, in the end, on events within Chile itself. At a minimum, without some concrete progress toward political devolution, the Chilean government can expect the Reagan Administration to vote against it at the World Bank, where some very important maturities fall due in 1987 and 1988.⁸ A bipartisan consensus may be evolving, drawing upon an instinctive American repugnance for dictatorships combined with a growing awareness of the practical costs of undemocratic governments for broader U.S. security interests.

The experience of the past decade has shown that, even if sanctions can play a useful role in communicating Washington's resolve and preventing its goals from being purposefully misrepresented, in and of themselves they are not a policy. A policy requires a clear notion of how one moves from negative incentives to a desired political outcome. In this case, there must be some minimal agenda that the armed forces and the democratic opposition—if not Pinochet himself—could accept. The National Accord represents the best hope for a workable compromise, but even if the Chilean president's continued resistance causes it to unravel, the United States should take from it some fundamental objectives to advance on its own.

Progress could be defined in two quite simple ways. First, any change in the 1980 constitution that makes it susceptible to amendment. As things stand now, the armed forces are

⁸ Chile is no longer considered sufficiently underdeveloped to draw upon the soft-loan window at the Inter-American Development Bank, where the United States possesses a definitive veto. On nonconcessional financing, Chile can overrule the United States by appealing to the Latin American members, who have a "gentlemen's agreement" to support one another's projects regardless of political differences, and who control a majority of votes on the bank's governing board. Thus, Nicaragua habitually supports Chilean loan applications, and vice versa.

sworn to defend a charter that the democratic opposition cannot possibly accept and whose authoritarian provisions are frozen into eternity by Article 44 of the constitution. Indeed, without such a modification, even the putative "best case" scenario (Cubillos or Jarpa instead of Pinochet in 1989 followed by a reform of the charter and a general political opening) would be juridically impossible.

Second, a decree-law conceding legal status to political parties. Though Chileans are supposed to go to the polls to elect a congress in only four years, the basic agencies of democratic political culture are still intermittently subject to persecution, imprisonment, censorship and internal exile. Meanwhile, close watch must be kept on the broader texture of human and political freedom in Chile, without which even these modest advances would be imperiled.

The U.S. Congress should also reexamine the guidelines governing support for democratic elements overseas, particularly the mandate of the National Endowment for Democracy, which presently forbids that agency from giving direct material assistance to political parties. Since the United States ceased to do this covertly in Chile in the mid-1970s, other nations and forces have stepped in to participate in a party life that is now more internationalized than ever. Whatever the intent of such actions, the effect has been to tilt somewhat the balance of forces within the opposition toward those elements inclined to form a common front with the Communists. A straightforward resumption of assistance to those elements which have historically constituted the bulwark of the democratic system in Chile would help them. It would also add credibility to the U.S. negotiating posture with the regime, and strengthen the hand of those elements within the armed forces rumored to favor serious engagement with the National Accord.

Of course, none of these measures may convince General Pinochet to step down, in 1989 or before. But without a revival of open political life and the emergence of a clear democratic alternative, neither he nor the armed forces will have any incentive to rethink their designs for their country's future. Instead, the country will gradually descend into a tracery of political upheaval, terror and counterterror, in which the beneficiaries will be the very forces from which the Chilean president claims to have rescued his country a dozen years ago. The United States cannot reinvent democracy in Chile, but it can determine the U.S. role, and prevent others from using it for purposes alien to its culture, tradition and national interest.

THE ANGLO-IRISH AGREEMENT

The British government has invited the Irish government to share in the burden of administering the troubled province of Northern Ireland. This is the unique invitation spelled out in an agreement signed on November 15, 1985, by the prime ministers of Britain and Ireland, Margaret Thatcher and Garret FitzGerald. If put into practice, this Anglo-Irish agreement will be the most important development in relations between the two countries since 1922, when the south of Ireland received independent dominion status as the Irish Free State while Northern Ireland remained within the United Kingdom.

The agreement represents a dramatic shift in Prime Minister Thatcher's position. During her first several years in office, she attached the highest importance to maintaining British sovereignty in Northern Ireland. In her first meeting with FitzGerald after he became prime minister in 1981, she remarked that she regarded the north as being "as British as Finchley," referring to her own constituency in the south of England. FitzGerald responded that Britain did not have thousands of troops stationed in Finchley, nor did it have a secretary of state in the cabinet for Finchley's affairs. One Irish official dubbed Mrs. Thatcher "the last true unionist."

The British prime minister was never more unswerving in her attitude nor more popular with Protestant unionists than during the hunger strike of prisoners belonging to the Irish Republican Army in the spring and summer of 1981. In retrospect, however, it can be seen that her hard-line management of that crisis set in motion a train of events that resulted in the November 1985 agreement.

Containing only 13 articles, the agreement is brief and bland. The vital clause states:

There is hereby established . . . an Intergovernmental Conference . . . concerned with Northern Ireland and with relations between the two parts

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of Ireland, to deal, as set out in this Agreement, on a regular basis with (1) political matters; (2) security and related matters; (3) legal matters including the administration of justice; (4) the promotion of cross-border cooperation.

Other articles make clear that cross-border cooperation is meant to be comprehensive, covering "security, economic, social and cultural matters."

Never before has Britain formally acknowledged that Ireland has a legal role to play in governing the north. Although it is far short of an acceptance of the principle of a united Ireland, the agreement contradicts cherished beliefs of the unionist majority in Northern Ireland: the belief that the north is exclusively British territory, that its affairs are purely an internal British concern, and that the Republic of Ireland, although a neighbor, is to be regarded as in all respects a foreign country.

No one expected the unionist community or its leaders to like the agreement, but an effort was made to allay unionist fears insofar as words could do so. The two governments promised that the constitutional status of Northern Ireland could only be changed with the consent of a majority of the people there, and they acknowledged that the present wish of a majority is for no change.¹ On the other hand, no effort was made to involve the unionists in the negotiations. It was accepted that they would adamantly oppose any role in Northern Ireland for the Dublin government, no matter how that role might be defined.

Unionist political leaders greeted the agreement with a storm of bitter denunciation, characterizing it as a "betrayal" by the British government and prophesying violence. The Reverend Ian Paisley, leader of the Democratic Unionist Party, predicted that the aftermath of the agreement would be "too horrible to contemplate" and warned the Dublin government that "the total wrath of the Unionist population will fall upon your heads."

On December 11, 1985, when the first meeting of the Intergovernmental Conference was held, Peter Barry, the Irish foreign minister who has been appointed his government's permanent ministerial representative to the conference, went to Stormont Castle, the Northern Ireland seat of government outside Belfast, accompanied by two other Irish cabinet minis-

¹ The agreement also affirms (Article 2b) that "there is no derogation from the sovereignty of either the Irish Government or the United Kingdom Government, and each retains responsibility for the decisions and administration of government within its own jurisdiction."

ters, to meet with Tom King, the British secretary of state for Northern Ireland. The Irish delegation arrived by helicopter. For the occasion, Stormont, where security is always tight, was turned into a fortress with 1,500 police officers on duty.

As the conference got under way, Paisley and Harold McCusker, the deputy leader of the rival Official Unionist Party, handed a joint letter of protest to King. Its language is typical of unionist rhetoric:

In the name of the Unionist majority whose rights you have trampled in the gutter, we repudiate you. The sordid exercise in which you are involved is the very antithesis of democracy. Today you debase yourself to the level of equal to the imposter Barry, the lowest form of political existence, who has no jurisdiction in this realm, parasite that he is, who has been carried to your table on the backs of the murdering IRA [Irish Republican Army].

The intemperate language of the politicians, the threats of violence from Protestant gunmen who have an abundance of weapons, and the sullen mood of the whole unionist community from university intellectuals to unemployed laborers do not bode well for the reconciliation of the two communities in the north, which is the ideal that the agreement seeks to attain. As the two governments worked to put the agreement into operation, there was no reason to doubt the words of Barry White, a deputy editor of *The Belfast Telegraph* and a respected observer of the northern scene, who had written a few months earlier: "Northern Ireland's Protestant unionists and Roman Catholic nationalists have never been further apart."²

II

Northern Ireland is a difficult problem for the outside world to understand because it arises from religious antagonisms within the Christian community. In an age when the agnostic spirit prevails elsewhere, a conflict between Presbyterians and Anglicans on the one side and Roman Catholics on the other seems an incomprehensible throwback to the seventeenth century. It is made all the more incomprehensible when leading Irish church leaders and politicians periodically insist that the dispute is not religious in nature. In reality, although the problem has significant political and economic dimensions, it would dwindle away if it were not for the religious antagonisms.

² *The Christian Science Monitor*, Aug. 16, 1985.

The present phase dates from the outbreak of sectarian violence in 1968–69, when the British army was called in to restore order. Sixteen years later the troops are still there, although in diminished numbers, and the politics of the province present a sorry record of frustration and fragmentation.

The disorders first occurred because a young generation of college-educated Catholics decided to emulate the nonviolent movement of American blacks led by Martin Luther King, Jr., and to challenge the inequities in Northern Ireland's society by passive resistance. This civil rights movement evoked brutal suppression by the police and inflamed the smoldering hostility of the Protestant majority. The wiser leaders of the then-unified Unionist Party, including Captain Terence O'Neill, Northern Ireland prime minister when the tumult began, and Major Robin Chichester-Clark, his cousin and successor, recognized that major reforms were necessary if the Catholic minority were to be calmed and reconciled to the political order. Between 1969 and 1971 they pushed through legislation granting the major demands of the civil rights movement.

The gerrymandered municipal government of Derry, Northern Ireland's second-largest city, was reformed, and the Catholic majority there finally took control. Another act removed the allocation of public housing from the local councils, which in Protestant towns had been flagrantly discriminatory, and centralized it in a new provincial housing authority. The police reserve force, the "B-Specials," was abolished and new commanders brought in from mainland Britain to reform the recruitment and training of the Royal Ulster Constabulary, the provincial police force. Discrimination in private employment was made illegal and a commission was established to act upon complaints.

Most of the leaders of the civil rights movement meanwhile coalesced with older nationalist political factions to form the Social Democratic and Labour Party (SDLP). It dropped the traditional abstentionist policy of Catholic nationalists and sought to participate in the governing of Northern Ireland. Its nominal leader was Gerry Fitt, the member of Parliament for West Belfast, but its moving spirits were two younger men, John Hume and Austin Curry.

If moderate men on both sides had remained in command of events, the Northern Ireland problem might now be history. As it was, the army occupation, the slowness of the reforms and latent religious and cultural antagonisms interacted and

produced a revolution and a counterrevolution, neither of which could be consummated. The result is today's bitter sectarian stalemate from which no easy exit is evident.

The Irish Republican Army makes a disputed claim to be heir to the rebels who won independence for most of Ireland during the uprising of 1916–22. The IRA has long been outlawed both in the Republic and in Northern Ireland. In 1968–69, it was moribund. The violent police reaction to the civil rights demonstrations and the heavy-handedness of the subsequent British army occupation served to rejuvenate the organization. It engages in violent attacks against the army and the police and in random terrorism against the civilian population. Its objective is a unified Ireland purged of British influence.

The IRA stands for a nationalist revolution that failed. It cannot oust the British nor successfully intimidate the Protestant unionist majority. Yet its sources of strength in the Catholic nationalist community are deep and wide enough that it cannot readily be extirpated. A leaked 1979 report from the intelligence corps of the British army reached the conclusion that the IRA violence can be contained by military and police work but cannot be defeated except by some political strategy.

The IRA has been reorganized several times and undergone successive changes of leadership as earlier members have been arrested and sentenced to long prison terms. It is now thought to number about 2,500 men with some 500 on active duty at any given moment.

The resurgence of the IRA aroused a counterrevolution by working-class Protestants to reassert their former unchallenged supremacy. In the mid-1970s, this counterrevolution expressed itself in various paramilitary organizations such as the Ulster Defence Association, the Ulster Freedom Fighters and the Ulster Vanguard. These murderous gangs, ill disciplined and loosely structured, killed several hundred Catholic civilians in tit-for-tat sectarian attacks between 1973 and 1976. Since that time, these random killings have almost completely disappeared, but the Protestant community remains heavily armed and could return to violence.

These Protestant militants stand for a counterrevolution that also failed. They could not crush the IRA by military force. Nor could they dictate the shape of British government policy. What did occur was the fracturing of the Unionist Party monolith into two parties, the traditional party now known as

the Official Unionists and the somewhat more militant Democratic Unionists led by the Reverend Paisley.

A power-sharing executive was the last throw of the dice by the traditional unionist leaders to govern the province through an accommodation with the moderate Catholics represented by the SDLP. A coalition cabinet of Protestants and Catholics headed by Brian Faulkner, a wealthy businessman and longtime unionist politician, and including Fitt, Hume and Curry, took office on January 1, 1974. The politicians worked well together but the Protestant gangs, whipped up by Paisley and other hard-line politicians, organized a general strike in May 1974 that paralyzed the province. When the British Labour government of Harold Wilson misread the situation and failed to suppress the strike by firm, timely measures, the power-sharing executive resigned. The British resumed "direct rule" by the secretary of state for Northern Ireland, a cabinet minister assisted by junior ministers and civil servants. Except for their members of Parliament in Westminster and representatives on the almost powerless district councils, the people of Northern Ireland have no direct share in governing themselves.

Beginning with the IRA hunger strike by prisoners in 1981, the IRA's political front—the Sinn Féin party—dropped its previous abstentionist policy and began to contest elections. When it wins, it follows a two-track policy: continuing to abstain from the House of Commons in Westminster, but taking its seats in local district councils in Northern Ireland.

Squarely in the center of Northern Ireland's political spectrum is the Alliance Party which, as its name suggests, seeks to transcend the sectarian divide. It has Catholic leaders but draws its strength from both Protestant and Catholic voters. It has not been able to expand its base beyond the middle-class neighborhoods of Belfast and the nearby suburbs. In the elections for local councils in May 1985, its vote fell to seven percent and it lost several seats.

On the other side of the political spectrum, the Official Unionists (OUP) continued to hold a small edge in popular support over Paisley's Democratic Unionists. In the May 1985 elections, the former received 30 percent of the vote and the latter 25 percent. Paisley, however, is the dominant unionist personality, overshadowing the colorless, cautious leader of the Official Unionists, James Molyneaux. The competition between the two parties causes them to march in lockstep rather than offer rival ideas. The politicians who control the OUP

today are hard-liners. Fifteen years ago, they fought the reforms put through by O'Neill and Chichester-Clark, and they rode the wave of popular distrust of Faulkner's power-sharing experiment. They hark back to the status quo as it was prior to 1968. Unable to restore it, they are likewise unwilling to meet the Catholics halfway. They remember what they themselves did to Faulkner's plan and fear that new unionist extremists might do the same to them. The outcome is a politics of no movement and ritualistic incantation of old slogans.

III

James Prior, who served as secretary of state for Northern Ireland in Mrs. Thatcher's government from the summer of 1981 to the summer of 1984, made a most energetic and determined effort to break the political impasse, the most ambitious initiative since the power-sharing executive fell a decade earlier.

Prior began in the spring of 1982 with legislation resurrecting a Northern Ireland Assembly. (None had existed since the Assembly that produced the power-sharing executive was dissolved in 1974.) Unlike the previous Assembly, Prior's was not preceded or accompanied by any understanding among the rival politicians to share power. Lacking such cooperation, Prior provided for an initial delegation of limited legislative powers (as distinguished from executive powers) to the Assembly. Its members could elect committees to hold inquiries and summon civil servants for examination. Prior made it clear that the chairmen of these committees might rapidly evolve into cabinet ministers directing specific departments of government if the Assembly functioned normally and if the political leaders demonstrated the minimum goodwill and cooperation needed to make any cabinet system work.

At first, only Paisley's Democratic Unionists and the small Alliance Party agreed to cooperate. The OUP hesitated. Its nominal policy is that devolved regional institutions cannot work and that the north should be fully "integrated" into the British system as if it were no different in political character from Suffolk or Somerset. However, not wishing to leave the Assembly stage entirely to Paisley, the OUP eventually decided its elected representatives would join in.

On the nationalist side, Sinn Féin announced it would boycott the Assembly. That had been expected. But the SDLP

announced it would also boycott, which had not been expected, and this abstention was crucial.

Timing was critical in the decision of the moderate Catholic nationalists to abstain from the Assembly. Nine years earlier in the maneuvering leading up to the 1974 Assembly, the SDLP had been foremost in pushing for an active devolved government. Then it had been content to see the north's problems in a purely British context. The reunification of Ireland seemed an idle dream, as it had for most of the preceding 50 years. The intervening years in the political wilderness, however, had wrought a shift in outlook. Fitt had resigned the leadership and abandoned the party. Paddy Devlin, another Belfast labor-union activist and politician, had also quit. With them went much of the Belfast working-class influence that looked to London and to the ideals of the British Labour Party. They had been interested in the SDLP only so long as they could see it as a vehicle for defending the interests of the Belfast working class within the context of British Northern Ireland.

When Speaker Thomas P. O'Neill led a delegation of members of the U.S. House of Representatives to Dublin and Belfast in the spring of 1979, he met with Fitt. "Do you think you'll see a united Ireland in your lifetime?" O'Neill asked. "Sure," Fitt replied jauntily, "—if I live to be 125!"

With Fitt gone, the balance of power within the SDLP shifted toward the more nationalist sections of the province in the west and along the border. Hume, the new party leader, was sensitive to this "greener" mood. He was also responding to the changed atmosphere within the Catholic nationalist community after Bobby Sands and nine other IRA prisoners had died on hunger strikes in 1981. Their ordeal renewed the faded legend of the IRA and reawakened old memories and old bitterness among Catholics, including many who did not normally sympathize with gunmen. Prime Minister Thatcher, by refusing any of the graceful compromises that were offered to her by the Irish Catholic bishops and other intermediaries early in the strike, may be seen by history to have made a major strategic error. The hunger strike was the greatest political and propaganda coup for the IRA in the last decade.

Finally, the SDLP had a symbiotic relationship with the government of the day in Dublin. Fianna Fáil, founded by Éamon De Valéra, has generally been the Republic's largest party and ostensibly the most nationalist. The opposing coalition of the Fine Gael and Labour Parties takes a sober, less romantic view

of the possibilities of national reunification. Prior's management of the legislation reestablishing the Northern Ireland Assembly, and the subsequent Assembly election campaign, coincided with a brief term in office for an Irish Fianna Fáil government headed by Charles Haughey.³ It also coincided with the Falklands War. Haughey outraged the British government and British public opinion when he withdrew Ireland's support for European Community sanctions against Argentina and adopted a neutral stance toward Britain and Argentina. Haughey was an outspoken critic of Prior's Assembly initiative. His position was that Northern Ireland is a "failed political entity" and that only direct talks between Dublin and London leading to the ultimate reunification of the island can resolve the Northern Ireland problem.

If Prime Minister FitzGerald had been in office during this period, it is likely, although not certain, that Hume and the SDLP would have followed FitzGerald's private view that the new Assembly was worth a try. As it was, moderate nationalist candidates campaigned on the theme that if elected, they would not take their seats unless one of two conditions were met: either a guaranteed power-sharing arrangement with the unionist parties would be worked out, or there would have to be some institutional recognition by Britain of the Republic of Ireland's role in the governance of the north. Since neither condition was met, the SDLP joined Sinn Féin in boycotting the Assembly. With neither of the nationalist parties participating, the Assembly could not achieve real weight and significance.

Hume turned his attention to the Republic, where he undertook a gigantic effort to organize public opinion and put pressure upon Britain to respond to nationalist demands. His argument was that since the partition of Ireland in 1920, the nationalists from north and south had not set forth their ideas of what a united Ireland would look like and what changes, constitutional, legal, political and economic, would have to take place if unification were to occur. How could lasting peace and stability be achieved in a new Ireland through the democratic process? By what new structures and processes might this objective be achieved?

After a winter of delicate interparty negotiations, the leaders

³ Haughey took office in March 1982 as head of a minority government relying upon the support of a bloc of independents. The government fell when it lost a general election in November of that year.

of Fianna Fáil, Fine Gael, Labour and the SDLP met on April 14, 1983, to organize an extended public inquiry called the New Ireland Forum. The four parties together represent over 90 percent of the nationalist population of Ireland, and almost three-quarters of the the island's total population.

At first, the New Ireland Forum was greeted with considerable skepticism as being a specious public relations exercise, bound to fail. However, the major politicians involved took it seriously and were faithful in their attendance, and soon the enterprise gained in respect. The forum opened in Dublin at the end of May and during the next 11 months held 13 public sessions and 28 private sessions, received more than 300 written submissions, and heard testimony from 31 individuals and groups. Although the Alliance Party and the two unionist parties declined to participate, representative figures from different walks of life in Northern Ireland did go to Dublin and offer testimony. The forum also commissioned special reports on the cost of violence since 1969, the economic consequences of the division of Ireland since 1920, the possible economic scenarios if Ireland were reunited and the legal systems, north and south.

When the New Ireland Forum completed its work, it published in May 1984 a cogent and calm, if forcefully worded, report setting forth its basic premise in these words:

The immediate outlook for the north is extremely dangerous unless an acceptable political solution is achieved. The long-term damage to society worsens each day that passes without political progress. . . . There are at present no political institutions to which a majority of the people of the nationalist and unionist traditions can give their common allegiance or even acquiesce in. The fundamental social bonds which hold people together in a normal community, already tenuous in the abnormal conditions of Northern Ireland, have been very largely sundered by the events and experiences of the past fifteen terrible years. . . . The immense challenge facing the political leaders in Britain and Ireland is to create the conditions for a new Ireland and a new society acceptable to all its people.

The New Ireland Forum report defined three possible models for a "new" Ireland: a unitary state governed from Dublin; a federation or confederation of the two parts of Ireland; and some form of joint authority in which Britain and Ireland shared in the governance of the north. Finally, to keep the door open for any possible British or unionist response, the report stated: "The Parties in the Forum also remain open to

discuss other views which may contribute to political development."

Since all four political parties participating in the New Ireland Forum share as their nominal goal a united Ireland, the report described a unitary state as "the ideal framework" for a new Ireland. At the news conference to present the report, Haughey declared that this was the only solution acceptable to Fianna Fáil. This was an effort to take back for domestic partisan reasons much of the open-ended, conciliatory language about other solutions that the report contained. The other signatories tended to discount Haughey's words since it was impossible to know how seriously he would act upon them if Britain offered something less than a unified Ireland.

Having immersed themselves for nearly a year in the intricacies of Northern Ireland's problems, the leading members of the Irish government and of Fianna Fáil had unconsciously persuaded themselves that since they called for "a major reassessment" by Britain, such a reassessment was sure to be forthcoming. But as frequently happens in Anglo-Irish relations, what seems central and urgent in Dublin seems peripheral and much less urgent in London. The British political establishment, except at moments of the most acute crisis, tends to relegate Irish questions to a second or third order of importance. Whether British leaders are wise to distance themselves from the problem in this way is at least questionable.

IV

When a British answer first came, it was considerably less than Dublin had hoped for. Prior, delivering his swan song as Northern Ireland secretary before leaving the cabinet to go into business, opened a debate on the issue in the House of Commons on July 2, 1984. Prime Minister Thatcher sat beside him to indicate the importance she attached to his remarks, but as usual most members of Parliament chose a debate on Northern Ireland as the time to go answer their mail or have a drink with a constituent. Fewer than 80 members were present as the debate began. Once Prior had concluded his statement and the prime minister left, the number quickly dwindled to the usual hard core of Northern Ireland members and the few English members who interest themselves in the matter.

In his statement, Prior did not close any doors irrevocably. By dwelling upon the essential need for the consent of the

unionist majority to any constitutional changes, however, he signaled that none of the three constitutional models sketched out by the New Ireland Forum report was a likely starter. Whether there could be some enhanced forms of cooperation between Dublin and London that would fall short of formal joint sovereignty was left suitably vague.

In Dublin, politicians and civil servants nevertheless remained warily optimistic throughout the summer that major reforms in the way Northern Ireland was run would be worked out between the two governments. Although Mrs. Thatcher had assigned a team of senior civil servants headed by Sir Robert Armstrong, the secretary of the British cabinet office, to hold talks with Dublin, there was a considerable discrepancy between the attitudes prevailing in the two capitals.

The central issues concerned the work of the police, the army, the courts and the prisons. Preserving public order and enforcing the law impartially are fundamental tasks of any free government. In Northern Ireland most of the Catholic nationalist population has long been alienated from these institutions of government. The police and the army have wide powers of arrest without obtaining a prior warrant. In cases involving the possession of firearms or explosives, the burden of proof is on the defendant (to establish his innocence) and not on the Crown. Since 1973, juries have been abolished in serious criminal cases because intimidation of jurors has made it almost impossible to obtain convictions. Cases are instead heard by a single judge. Since it is difficult to obtain witnesses or documentary evidence of criminal conspiracies, the government has increasingly relied upon defendants who become witnesses for the Crown. These witnesses, known in British slang as "supergrasses," are naturally suspect, no matter how plausible their testimony, since they have strong motives to cooperate with the prosecutor.

After the B-Specials were abolished as the auxiliary police force, the British government felt the need of a supplementary reserve to assist the police and the army in patrolling roads, manning checkpoints, and performing other routine duties. The Ulster Defence Regiment was formed, intended to be a nonsectarian unit. As appropriate symbolism, the first two recruits were a Roman Catholic and a Protestant. But because the IRA either murdered or intimidated Catholics who joined, there are now only about 175 Catholic members in a regiment of 3,700 part-time and 2,700 full-time members. The Ulster

Defence Regiment is the largest regiment in the British army, recruited in Northern Ireland and only on service there. Gradually, and perhaps inevitably, the Ulster Defence Regiment has come to be seen by the Protestant community as "our" regiment and to be deeply distrusted by Catholics.

When the Anglo-Irish talks began in the summer of 1984, the Irish government pressed for the abolition of the Ulster Defence Regiment. It raised the possibility that in the nationalist areas of West Belfast and Derry where members of the Royal Ulster Constabulary cannot safely patrol, the policing might either be taken over by the Garda Síochána (the Republic's police force) or by a new force recruited on both sides of the border and officered jointly by the Royal Ulster Constabulary and the Garda.

In place of one-judge courts, Dublin proposed that the model of the Republic be followed and the number of judges be increased to three, with one of these judges being a member of the Republic's judiciary. (As in the north, IRA-related cases are tried in the Republic without a jury.)

Dublin also proposed the appointment of a new Police Authority. Created in 1970, the Police Authority is supposed to be the watchdog of police abuses. It receives public complaints and has the power to refer cases involving alleged police misconduct to an independent tribunal. In the nationalist community this watchdog is considered blind and toothless. The SDLP adopted a discussion paper on justice at its annual conference in January 1985 that asserted: "The Police Authority is nothing more than an official smokescreen, aimed at suggesting that [the Royal Ulster Constabulary] are controlled and are accountable, while in fact remaining mute on the . . . daily oppressive practices of the RUC."

If the Irish Republic were to become involved in the administration of justice in Northern Ireland, it wanted to have a share in authority and the power to shape decisions, not merely to tender advice. The Thatcher government, like its predecessors since the present violence first erupted, is eager to keep and to improve cooperation with the Republic in security matters. Without such cooperation, the Republic could become one vast "safe house" for the IRA, and Northern Ireland might become ungovernable. Yet while recognizing that the two governments share a common interest in the defeat of terrorism, Prime Minister Thatcher at the outset gave a higher

priority to the maintenance of British sovereignty in Northern Ireland.

v

The depth of Mrs. Thatcher's convictions about the north became apparent during a meeting of the two prime ministers in London on November 18–19, 1984. She was adamant that the Ulster Defence Regiment should not be disbanded, as she was not prepared to increase the number of regular British soldiers to previous levels to make up for the weakening of law-enforcement capability such an action would entail. In part, this reflected her belief that the road to peace in the north lay in the "Ulsterization" of its administration and in less overt British control. It ran counter to FitzGerald's argument that unless Catholic confidence and cooperation could be enlisted, Ulsterization would remain an unpleasant synonym for Protestant hegemony.

Mrs. Thatcher was opposed to the introduction of the Garda Síochána into the policing of Northern Ireland or to the Irish government's having any power over the Royal Ulster Constabulary or the Police Authority. Similarly, she saw constitutional obstacles, not necessarily insurmountable, to having southern Irish judges sit in courts in the north. Having rejected in whole or in part the Irish proposals, Mrs. Thatcher nevertheless agreed that cabinet ministers and senior officials should continue to explore possible ways in which the two governments could ameliorate the situation in Northern Ireland. The communiqué issued after the talks was low-key. Borrowing the language of the New Ireland Forum report, it stated that "the identities of both the majority and minority communities in Northern Ireland should be recognized and respected, and reflected in the structures and processes of Northern Ireland in ways acceptable to both communities." There was no indication as to how those "structures and processes" might be changed.

At her news conference, the British prime minister said no decisions had been reached but that she and FitzGerald would meet again. "I do not wish to raise expectations that everything will be solved next time. I do not think it will be. But I hope we will be able to get a little further," she said.

Had she stopped there, it would have been in a familiar diplomatic tradition in which difficult issues are left vague and open-ended. Instead, she proceeded to volunteer a withering

attack on all three constitutional models put forth by the New Ireland Forum: "I have made it quite clear, and so did Mr. Prior, when he was secretary of state, that a unified Ireland was one thing that was out. A second solution was a confederation system: that was out. A third solution was joint authority: that is out." Since Mrs. Thatcher delivered these remarks with her customary vehemence, she managed, as *The Irish Press* of Dublin remarked editorially, to make "out" sound like a four-letter word.

At his separate news conference, Prime Minister FitzGerald clung to the language and to the tenuously hopeful tone of the communiqué. He described the discussions as "extensive and constructive." He refused to be drawn into any public disagreement with the British prime minister. But her remarks evoked a firestorm of criticism in Ireland. Hume, for example, characterized her language as provoking "deep and justifiable anger and offense." Back in Dublin, at a closed meeting of his party's parliamentary members, FitzGerald described her remarks as "gratuitously offensive," a phrase that quickly found its way into the newspapers.

This was the low point. Negotiations resumed, and as the talks proceeded with modest progress, the date for the next formal meeting of the two prime ministers was postponed, first from late winter to late spring, then to early autumn, and finally to November.

The turning point came in June 1985 when Prime Ministers FitzGerald and Thatcher met informally in Milan at a European Community conference. During a lengthy conversation, Mrs. Thatcher dropped her skeptical and detached approach to the negotiation and appeared for the first time to appreciate FitzGerald's sense of the urgency and importance of doing something constructive about the north before Sinn Féin made irreversible gains and displaced the SDLP as the political spokesman for a majority of northern Catholics.

Prime Minister Thatcher had earlier appointed a cabinet committee including Sir Geoffrey Howe, the foreign secretary, and Viscount Whitelaw, leader of the House of Lords, to work with Douglas Hurd, the new secretary of state for Northern Ireland, in supervising the negotiations. However, as is normal in British and Irish government, the substantial negotiations were actually conducted by senior civil servants headed, for the British, by Cabinet Secretary Armstrong and for the Irish by Dermot Nally, secretary to the office of the prime minister,

and Sean Donlon, secretary of the Department of Foreign Affairs.

After the Milan talk had removed any lingering doubt that Mrs. Thatcher was prepared to act, the negotiations moved swiftly ahead. By the end of July, the civil servants had prepared the outlines of an agreement, and it only remained for the respective cabinets to take the necessary decisions on three or four disputed points. Dick Spring, the Irish deputy prime minister, and Foreign Minister Peter Barry met with Howe and Hurd in London.

The process hit a brief rough patch on the road in September when Mrs. Thatcher included Hurd in a major cabinet reshuffle, moving him from the Northern Ireland Office to the job of home secretary. Christopher Patton, one of his junior ministers who had the sensitive assignment of conducting political talks with the Northern Ireland parties, was shifted to junior minister in the Ministry of Education. These changes seemed once again to signal a British view that Northern Ireland was not, after all, very important compared to the concerns of mainland Britain. The press reaction in both London and Dublin was adverse, particularly as Tom King, Hurd's successor, was not a well-known political figure. Like most of his predecessors he had no experience and little knowledge of the north. As it became clear that the agreement was already far advanced and that its details would be decided upon by the prime minister herself, these concerns faded.

VI

The agreement finally made public in November 1985 represented the culmination of 18 months of negotiations begun at an official level almost immediately after the release of the New Ireland Forum report in May 1984. Along the way there were the two summit meetings of the prime ministers, their four informal meetings on the margins of European common market conferences, six meetings of cabinet ministers, and 35 among officials at lower levels. In that period, the British prime minister had also had a close brush with death in October 1984, when IRA bombs blew up the hotel in Brighton where she and most of her cabinet were staying for a Conservative Party conference.

No one could have predicted after the "out, out, out" press conference of November 1984 that when the two prime ministers next met for a summit a year later, it would be marked

by the signing of an Anglo-Irish agreement. The events that brought about the evolution in Mrs. Thatcher's thinking can be traced back not one year but four.

Her stern, unyielding management of the IRA hunger strike in 1981 had caused an upsurge of support for the IRA within the Catholic nationalist community. This emboldened Sinn Féin to return to contesting elections. Its relative success alarmed the SDLP and the major parties in the Republic, and their response was the New Ireland Forum. Meanwhile, Prior was trying to get the revived Assembly off the ground. If either of the principal unionist parties in 1982–83 had been willing to contemplate sharing power with the SDLP, the latter would have been willing to enter the Assembly. However, throughout nearly a generation of crisis, the unionist people and their leaders have been unable to grasp the point that either they would have to come to terms with the SDLP at the regional level or face some kind of intervention by the government in Dublin on behalf of the nationalist minority. The unionists adamantly refused to share power with their Catholic neighbors and remained even more distrustful of the government in Dublin.

The failure of Prior's Assembly initiative made it clear to the British prime minister that if she were to make any move to change the unpromising dynamics of the Northern Ireland situation, she would have to do so through an agreement with Dublin. In this sense, the 1985 agreement is an expression of British exasperation with the stubbornness and sterility of the unionist position.

Mrs. Thatcher could have continued to hold to the view she had maintained since taking office in 1979, that the situation in the north was bad, but that anything she could do might make it worse. The patient persuasion of Prime Minister FitzGerald was decisive in altering that viewpoint. He ultimately persuaded her that doing nothing was not a prescription for peace and stability, that time and events were working in favor of the IRA. If this trend were not reversed, it spelled danger for her country and for his.

In this context, the unfavorable reaction, particularly in Ireland and the United States and in some influential quarters in Britain, to her "out, out, out" press conference made Mrs. Thatcher more amenable to FitzGerald's campaign of persuasion. It was pointed out to her that if she could not find common ground with such low-key, undemagogic politicians as Fitz-

Gerald and Hume, she was unlikely to find any Irish politician with whom she could negotiate the Northern Ireland problem.

The result of this meeting of minds between the two prime ministers is an agreement that is extraordinarily vague about procedures and details but clear about the broad scope of the cooperation that is envisaged between the two governments.

"The United Kingdom Government accept that the Irish Government will put forward views and proposals on matters relating to Northern Ireland." Presumably, no government invites another to offer advice about problems within its own jurisdiction unless it intends to take that advice seriously. The agreement provides no procedure for arbitrating or resolving differences. It merely states: "In the interest of promoting peace and stability, determined efforts shall be made through the Conference to resolve any differences."

The operation of the Intergovernmental Conference was carefully outlined. (The term "conference" was used rather than council or commission, partly because the number and identity of the cabinet ministers in attendance were expected to vary depending upon the issues under discussion, and partly because "conference" sounds less structured and permanent, and therefore might be less intimidating to unionists.) The Intergovernmental Conference is to meet at either ministerial or official level, its meetings shall be "regular and frequent," and its business will "receive attention at the highest level." The Irish minister designated as the permanent Irish ministerial representative and the British secretary of state for Northern Ireland are to serve as co-chairmen. The agreement establishes a joint secretariat to help follow up on the Intergovernmental Conference's decisions and plan future meetings. The creation of this secretariat, with offices a short distance from the Northern Ireland government complex at Stormont, means that for the first time since 1922 officials from the south of Ireland are at work in the north.

The fourth article asserts that it is the declared policy of Britain to encourage a devolved government in the north that would be acceptable to both sides of the community and that the Irish government supports that policy.

Article 5, entitled "Political Matters," sets forth three objectives. They are to accommodate the rights and identities of the two communities, protect human rights and prevent discrimination. Among the subjects for review by the Intergovernmental Conference are "measures to foster the cultural heritage of

both traditions, changes in electoral arrangements, the use of flags and emblems, the avoidance of economic and social discrimination and the advantages and disadvantages of a Bill of Rights.”

This last item is an allusion to a significant diversion between British and Irish constitutional practice. Britain has the world's most famous unwritten constitution, while Ireland has a written constitution subject to judicial review and interpretation in the American manner by a supreme court. Since most Catholics in Northern Ireland are deeply alienated from the British law-enforcement and judicial systems, they would like a bill of rights to which they could appeal for protection. In Britain, there is considerable support in the Labour and Alliance Parties for adopting a bill of rights for the nation as a whole, but Mrs. Thatcher and most members of the Conservative Party are suspicious of such a break with tradition.

Dublin's new status as designated spokesman for the Northern Ireland Catholics has its clearest definition in Article 6 which states that the Irish government may put forward proposals “on the role and composition” of five government agencies: the Standing Advisory Commission on Human Rights, the Fair Employment Agency, the Equal Opportunities Commission, the Police Authority, and the Police Complaints Board.

Since the unionists have been accustomed to think of the police as a shield against the murderous depredations of the IRA, this provision is anathema to them. In the darker unionist imagination, the IRA is the covert arm of the Dublin government; the one seeks to unite Ireland by force and the other by consent, and both are to be resisted. To grant the Dublin government a voice in selecting members of the Police Authority and the Police Complaints Board is regarded as tantamount to turning the chicken coop over to the fox. But conversely, this provision was crucial for Dublin. Unless Catholic confidence in the impartiality of the police can be established, there is no prospect for achieving normality in the north.

Articles 7 and 8 discuss the need for improvement in police training, police and community relations, and an increase in the number of Catholics in the police. Prison policies and the cases of individual prisoners are subject to review by the Intergovernmental Conference. There is to be an effort to harmonize criminal law in the north and the south, and consid-

eration will be given to the possibility of mixed courts in both jurisdictions.

FitzGerald and the Irish negotiating team had pushed hard for the concept of mixed courts. There were times when the idea seemed likely to be agreed upon, but in the end the British were reluctant to undertake the experiment. The controlling consideration was the British view that mixed courts might create as many problems as they would solve. There would be serious security problems in guarding the judges on both sides who undertook this hazardous duty, and mixed courts would arouse acute unionist indignation because of the formal sharing of authority with Dublin. The question was left open.

The remaining articles express support for the creation of an Anglo-Irish parliamentary committee drawn from the House of Commons and the Dáil (the lower house of the Irish Parliament) and provide for a review of the agreement after three years.

VII

What can the unionists do to subvert the agreement? That is the compelling question now and for the coming year.

To dramatize their contention that the agreement defies democratic sentiment in the province, the unionists who held 15 of Northern Ireland's 17 seats in the House of Commons resigned as a group. There was an element of risk in this maneuver since four of the unionist seats are in nationalist areas. The unionists represent these districts only because the moderate SDLP and more militant Sinn Féin split the nationalist vote. To guard against splitting their own vote, the unionists arranged an electoral pact which nominated only one of their number in each constituency.

When the special election was held on January 23, 1986, the outcome was less than ideal for the unionists. Paisley and several other well-known figures won by predictably huge majorities. One of the four marginal seats, however, was lost to the SDLP and in a second, Enoch Powell, the veteran English politician who is now the intellectual driving force of the Official Unionists, scraped home by fewer than 2,000 votes. The unionists had incautiously called for the support of 500,000 voters, which would have been a clear majority of the Protestant population. They actually polled only 418,000—a show of strength but not particularly impressive.

For the British and Irish governments warily observing this

voting, there was some heartening news. The two nationalist parties only contested the four districts where Catholics are in a majority. The SDLP candidates campaigned in support of the agreement and their combined vote rose 19 percent above the level reached in the 1983 general election. Support for Sinn Fein, which attacked the agreement as a "sellout" to the British, dropped 25 percent. Inasmuch as the political rationale for the agreement is to lessen the alienation of nationalists, the SDLP's strong showing indicates that this rationale is sound.

Having had the special election, unionists can still withdraw from Parliament. They can also refuse to serve in elected local councils and on appointed boards dealing with health and with education. But in the past abstention never paid dividends for the nationalist minority. It is likely to be equally self-defeating for the unionists.

Another option is a recourse to violence. Leading politicians in the Republic could be prime targets for assassination. There could be a round of sectarian killings in the north such as occurred in the mid-1970s when many rank-and-file Catholics were killed. The police, however, are believed to have infiltrated the Protestant paramilitary groups. A new wave of killings might lead only to a substantial increase in the number of Protestant gunmen already behind bars. In any event, the British government is unlikely to be deterred by fresh violence.

Unlike previous attempts to resolve communal antagonisms in the north through regional institutions that required unionist cooperation for their success, this agreement is entirely between the sovereign governments in London and Dublin. This reality severely limits the room for maneuver open to unionist resistance. Prime Minister Thatcher met with Paisley and Molyneux on February 25 and offered them a consultative procedure of their own. Every time the British and Irish cabinet ministers meet at the Intergovernmental Conference, the unionist leaders could meet separately with the Northern Ireland secretary to be briefed and to offer their own advice on issues under discussion. This offer may yet find some unionist takers, although it was temporarily overshadowed by a unionist show of militancy: a one-day strike on March 3 that shut down most business in the north.

The agreement includes language intended to encourage the political parties in Northern Ireland to form a coalition government along the lines of the power-sharing executive of 1974. Most of the advisory powers conceded to Dublin, for

example, are to be exercised only in the absence of a devolved government in the north that is acceptable to both communities. Insofar as the unionists dread Dublin's intervention in their affairs, the ideal option is for them to return to power-sharing.

The Assembly established by Prior is scheduled for renewal or abandonment in the autumn of 1986. The unionists would have to make a U-turn with remarkable speed away from their intransigent rhetoric and toward the language of cooperation in the few months remaining before the election if they are to convince the SDLP to drop its abstentionist position and enter into a wholehearted effort to make the Assembly work. Such a reversal of policy is conceivable but unlikely. Although Hume has offered to enter talks with the unionists without preconditions, the SDLP may prefer to place its trust in the Intergovernmental Conference and its own influence in Dublin rather than rely upon unionist cooperation.

As an incentive to the two hostile communities in the north to cooperate, the negotiators of the agreement decided to seek the creation of an economic development fund to be financed by special grants from Britain, the European Community, Canada, Australia and, they hope, the United States. Despite the restraints of the Gramm-Rudman-Hollings budget act, President Reagan has proposed and House Speaker O'Neill is actively supporting a one-time grant of \$250 million, with the actual appropriations stretched out over five years. This money would go to a trust fund to be established by the British and Irish governments.

The route to reconciliation in Northern Ireland will be long and tortuous. The Intergovernmental Conference must show results through changes in the police, the courts and the prisons if the alienation of the Catholic community is to diminish and its support for the IRA to decline. Time will have to pass before unionist fears subside and members of that community begin to recognize that enlisting Dublin's active involvement has not damaged their security and has, in fact, made some problems easier to manage. The two governments have set in motion a process of change. The way ahead for this kind of intergovernmental cooperation is uncharted. It may be the end of the century before it finally becomes clear how far Northern Ireland has drifted from its old habits of conflict.

RECENT BOOKS ON INTERNATIONAL RELATIONS

Edited by Lucy Edwards Despard

General: Political and Legal

John C. Campbell

THE PRIMACY OF FREEDOM IN DEVELOPMENT. By Ambassador Soedjatmoko. Washington: University Press of America, 1985, 91 pp. \$18.25 (paper, \$6.75).

Former Indonesian ambassador to the United States (1968–71), now rector of the United Nations University in Tokyo, Ambassador Soedjatmoko is a voice to be respected when he speaks of the problems of our time and especially those of the Third World. The essays in this slender volume, taken from various earlier and not always easily accessible publications, blend very well because they all have the essential theme of freedom and its importance for new developing nations. He sets high standards for human endeavor and governance, standards which contrast not only with what these nations have done but with what it seems possible for them to do.

ETHICS AND INTERNATIONAL RELATIONS: ETHICS IN FOREIGN POLICY, VOL. II. Edited by Kenneth W. Thompson. New Brunswick (N.J.): Transaction Books, 1985, 140 pp. \$12.95.

This little book merits a careful reading. For ideologues, the answers are predetermined; for Machiavellians, the questions are irrelevant; for the rest of us, the problem of the balance between moral standards and political possibilities is ever present in the formulation of foreign policy. The essays here are by distinguished authorities in the fields of constitutional law, history, government, economics and international relations. All deal, one way or another, with the dilemmas of the cold war, and John Lewis Gaddis contributes a perceptive historical study specifically directed to that subject.

ALIEN POWERS: THE PURE THEORY OF IDEOLOGY. By Kenneth Minogue. New York: St. Martin's, 1985, 255 pp. \$10.95 (paper).

A searching discussion of the relation of ideology to politics, much of the author's critique is directed at Marx and Marxism, with occasional sideswipes at the feminists, but applies as well to rightist totalitarians or Islamic fundamentalists, or any system with similar claims to a monopoly of truth. His case, brilliantly and convincingly argued, does not deal directly with international relations, but the references to the record of victorious Marxism in practice reinforce the main argument tenfold.

THIRD WORLD MARXIST-LENINIST REGIMES: STRENGTHS, VULNERABILITIES, AND U.S. POLICY. By Uri Ra'an and others. Washington: Pergamon-Brassey's, 1985, 131 pp.

A "special report" prepared under the sponsorship of the Institute for Foreign Policy Analysis with the purpose of increasing understanding of Soviet strategy in the Third World and the range of responses available to

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the United States. Specifically, the report deals with states that have avowed Marxist-Leninist regimes and close ties with the U.S.S.R.: Cuba, Nicaragua, Angola, Mozambique, Ethiopia and Afghanistan (Vietnam, Cambodia, South Yemen and others get only passing mention). While the five authors write separate chapters, they are on the same wavelength in analyzing Soviet policy and in describing the vulnerabilities of these regimes that could be exploited by the United States. They praise the hard-line policies of the Reagan Administration but feel it has not gone far enough toward a clear, firm and publicly accepted strategy of supporting anti-communist resistance movements, countering Soviet expansion, and combating terrorism.

General: Military, Technological and Scientific

Andrew J. Pierre

MAKING THE ALLIANCE WORK: THE UNITED STATES AND WESTERN EUROPE. By Gregory F. Treverton. Ithaca (N.Y.): Cornell University Press, 1985, 211 pp. \$24.95.

This is an intelligent and sophisticated overview of the Atlantic alliance, drawing upon the history of the past 15 years in dealing with such problems as NATO's nuclear dilemmas, détente in Europe, defense responsibilities beyond Europe, and transatlantic economic relations. The author's intent is not to discuss the issues in depth but to illustrate the politics of the alliance, showing how one nation's foreign policy decisions affect the domestic politics of an ally. This he does extremely well, with probing insights and judgments honed by his stints with the National Security Council and the International Institute for Strategic Studies.

LA PUCE, LES HOMMES ET LA BOMBE: L'EUROPE FACE AUX NOUVEAUX DÉFIS TECHNOLOGIQUES ET MILITAIRES. By Pascal Boniface and François Heisbourg. Paris: Hachette, 1986, 320 pp.

This is an unusual and therefore valuable book: an up-to-date and highly knowledgeable discussion of the major political, military and technological issues facing the Atlantic alliance as seen from France and, more generally, Europe. Among the subjects are new technologies and strategies for conventional defense, the implications of SDI for Europe, and coming demographic and economic constraints on European defense. François Heisbourg was international relations adviser to the minister of defense in 1981–84 and since then has been with Thomson International, deeply involved in arms procurement and sales: his special knowledge is well utilized in this book. Both authors view technology as presenting a new challenge to Europe, place a special hope in Franco-German cooperation, but leave open the question of whether Europe is headed for renewal or decline.

MAKING EUROPE UNCONQUERABLE: THE POTENTIAL OF CIVILIAN-BASED DETERRENCE AND DEFENSE. By Gene Sharp. Cambridge: Ballinger, 1986, 325 pp. \$14.95 (paper).

Neither the policy of nuclear deterrence nor of a massive conventional arms buildup are attractive alternatives for European security—yet a combination of these remains the West's policy. The value of this thoughtful work is in the alternative it suggests: "civilian defense" through advance

training for such actions against an intruder as mass public demonstrations, boycotts and strikes, demoralization of enemy troops, and the like. The author's proposals go against the grain of mainstream thinking, and to this reviewer leave many questions unanswered, but they are carefully put forward in a nonpolemical manner and clearly merit sustained attention and thought.

A GAME FOR HIGH STAKES: LESSONS LEARNED IN NEGOTIATING WITH THE SOVIET UNION. By Leon Sloss and M. Scott Davis. Cambridge: Ballinger, 1986, 200 pp. \$24.95.

Rounding up some veteran negotiators on the U.S. side from such negotiations as those on SALT, MBFR, the Comprehensive Test Ban and the CSCE in order to distill the lessons of their experience was an excellent idea, or so it would seem from the resulting volume. They discuss Soviet negotiating style and tactics, best described as "tenacious," but often dependent upon an initial American proposal, as well as the appropriate U.S. response, which should include patience, clarity of objectives and broad domestic support. Along the way there are many interesting insights into such matters as the use of "back channels," informal soundings and the setting of deadlines. An original and most useful book, sponsored by the Roosevelt Center for American Policy Studies, which should be read by all present and future negotiators.

ACHIEVING EFFECTIVE ARMS CONTROL. A Report of the Committee on International Arms Control and Security Affairs of the New York City Bar Association. New York: New York City Bar Association, 1985, 180 pp. \$5.00 (paper).

This is a comprehensive report, the result of a two-year study chaired by Stanley S. Resor, on today's major arms control issues. The recommendations call for an agreement to limit the Strategic Defense Initiative to research in return for major reductions in Soviet offensive nuclear weapons, including substantial reductions in land-based systems; strengthening the Anti-Ballistic Missile Treaty; prohibiting the testing of antisatellite weapons; ratification of the Threshold Test Ban Treaty and Peaceful Nuclear Explosions Treaty; and other measures affecting force reductions in Europe, chemical weapons, and nuclear nonproliferation. The result of extensive consultation with experts, the report is professional in context, clear in presentation.

PSYCHOLOGY AND DETERRENCE. By Robert Jervis, Richard Ned Lebow and Janice Gross Stein. Baltimore: Johns Hopkins University Press, 1986, 270 pp. \$27.50.

Deterrence—so basic to U.S. national security policy and indeed to much of the current system of international relations—remains of uncertain psychological validity. The authors of this sophisticated and perceptive book examine such situations as the Falklands War, the Arab-Israeli confrontations and the events leading up to World War I, and draw some troubling conclusions about risk-taking, national behavior and reliance upon deterrence as a strategy for conflict management.

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STRATEGIC DEFENSE: "STAR WARS" IN PERSPECTIVE. By Keith B. Payne. Lanham (Md.): Hamilton Press. 1986, 250 pp. \$20.95 (paper, \$9.95).

The author is a proponent of the Strategic Defense Initiative, but he marshals the arguments against it as well as those for it in a fair manner. The result is a comprehensive summary of the current debate presented in a form easily understandable to the nonspecialist.

ISRAEL'S GLOBAL REACH: ARMS SALES AS DIPLOMACY. By Aaron S. Klieman. Washington: Pergamon-Brassey's, 1985, 250 pp. \$22.50.

Israel, with over \$1 billion in annual arms sales, has become a major weapons exporter, with arms accounting for one-quarter of the nation's industrial exports. This masterful study explores all aspects of this phenomenon: the growth of the defense industry, the role of arms sales in Jerusalem's foreign policy and relationship with certain countries, and the considerable limits to further expansion of arms sales due to both technological and political factors. This informative, detailed and balanced analysis is the best study to date of a so-called Third World arms supplier.

FIGHTING BACK: WINNING THE WAR AGAINST TERRORISM. Edited by Neil C. Livingstone and Terrell E. Arnold. Lexington (Mass.): Lexington Books, 1986, 268 pp. \$28.00.

Among the flood of books on this subject in recent years, this stands out because of its relevance to the current debate about how to deal with state-sponsored terrorism. The collection of essays ranges from the practical aspects of executive protection to legal, moral and media-related issues. The tone is one of urgency, some might say alarmism. Altogether the various authors argue for an aggressive approach, including preemption of possible terrorist acts, and they accept the necessity of some calculated risks to innocent parties.

General: Economic and Social

William Diebold, Jr.

TRADE TALKS: AMERICA BETTER LISTEN! By C. Michael Aho and Jonathan David Aronson. New York: Council on Foreign Relations, 1985, 178 pp. \$8.95 (paper).

This timely volume lays out the inescapable agenda for the next round of GATT negotiations and shows why it will be exceptionally difficult to arrive at satisfactory compromises. Both authors have firsthand experience of American trade policy but understand the problems of other countries and the intractability of some major issues. They forecast years of negotiation and have interesting ideas about how to get results in the meantime.

DEFICITS AND THE DOLLAR: THE WORLD ECONOMY AT RISK. By Stephen Marris. Washington: Institute for International Economics, 1985, 343 pp. \$15.00 (paper).

Among the many analyses of what is wrong with the world economy, this one stands out for the thorough and sophisticated way it links the domestic features of major national economies with the international disequilibrium they have produced. The resulting prognosis is gloomy as it

shows that partial measures (for example, the reduction of the American budget deficit) will be inadequate to avoid a "hard landing" for the world economy. To do "the right thing," the United States, Japan and the major countries of Western Europe will have to reverse their policies of recent years. Some fascinating scenarios are drawn from a model, but even greater interest attaches to the author's judgments and his sharp observations reflecting his nearly 30 years of work in the most sensitive spots of the OECD.

ECONOMIC STATECRAFT. By David A. Baldwin. Princeton: Princeton University Press, 1985, 409 pp. \$55.00 (paper, \$12.50).

This is a study of economics as an instrument of politics, and quite a rigorous one. It begins with meticulous discussions of the means and ends of national policy and power, and the larger part of the book focuses on economic sanctions. Here Professor Baldwin tears apart the reasoning of most other scholars and torpedoes not only the conventional wisdom about various cases but just about all generalizations. His emphasis on the unique circumstances in which each decision has to be made produces something less than a complete guide to foreign economic policy, but he reminds us that Jefferson said "Ignorance is preferable to error." This is a stimulating book; one wishes it covered the whole range of foreign economic policy.

THE RISE OF THE TRADING STATE: COMMERCE AND CONQUEST IN THE MODERN WORLD. By Richard Rosecrance. New York: Basic Books, 1986, 268 pp. \$19.95.

It is a familiar thought that nations cannot escape being concerned both with military power and welfare based on civilian pursuits and the international division of labor. But the mix can vary. A survey of history and a study of contemporary interdependence lead Professor Rosecrance of Cornell to the conclusion that there is a strong movement toward emphasizing the benefits of trading and cooperation except on the part of the two superpowers and some of the Third World. Even there he finds signs of a shift, but one wishes he had dealt more rigorously with the connection between Soviet-American relations and the freedom of choice of other countries, and with the nature of the power they acquire by being "trading states."

THE ZERO-SUM SOLUTION. By Lester C. Thurow. New York: Simon & Schuster, 1985, 404 pp. \$18.95.

"The central task of the next quarter century is to regain American competitiveness." To do that, according to Professor Thurow, requires action on investment, savings, education, antitrust, research and development, fairness in social policies, "a reconception of the theory of the American firm," the tax system, intervention in foreign exchange markets, and quite a few other things. American business management is given a number of black marks and labor is told to be more cooperative. Although it is presented as a platform for the Democratic Party, this lively book is full of ideas that ought to be thought about by everybody.

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NEW LIMITS ON EUROPEAN AGRICULTURE: POLITICS AND THE COMMON AGRICULTURAL POLICY. By François Duchêne, Edward Szczepanik and Wilfrid Legg. Totowa (N.J.): Rowman & Allanheld, 1985, 286 pp. \$45.00. An Atlantic Institute for International Affairs Research Volume.

This is an outstanding study of the history and dynamics of the process whereby Western Europe, once the world's leading food importer, has reached record levels of farm production, exports and also government expenditure. The explanations lie not so much in high prices as in a more complex interplay of national and Community policies, some of which continue to block some needed reforms. After examining the alternatives, the authors suggest that more, not less, common policy is called for—but they do not predict it.

CONFRONTATION OR NEGOTIATION: UNITED STATES POLICY AND EUROPEAN AGRICULTURE. By the Curry Foundation. Millwood (N.Y.): Associated Faculty Press, 1985, 303 pp. \$27.50.

This good collection of papers and comments by Americans and Europeans focuses on the Common Agricultural Policy but recognizes that American farm policy leaves something to be desired. The authors are better at showing the difficulties of alternative methods of negotiating than at imagining drastic new approaches, but there is a sound recognition that something new is needed even if international action can produce only "modest improvements in the way in which governments intervene in agricultural markets."

EUROPE AND THE NEW TECHNOLOGIES. Edited by Margaret Sharp. Ithaca (N.Y.): Cornell University Press, 1986, 312 pp. \$32.50.

The application of new technologies, not their invention or development, is the focus of this very good book by a team drawn together by the Science Policy Research Unit of the University of Sussex. The six case studies of "new industrial activities" and the changes they have brought are designed to permit comparison, and the editor has done a good job of finding common themes. However, there is great diversity and much of the book's value lies in its extensive factual material about the experience of companies and governments in a number of European countries.

TECHNOLOGY TRANSFER AND EAST-WEST RELATIONS. Edited by Mark E. Schaffer. New York: St. Martin's, 1985, 273 pp. \$39.95.

The authors, mostly British academics, have expert knowledge and argue well; their main conclusions do not differ much from other studies, as in the emphasis on the limited effect of trade controls and the slow diffusion of technology in socialist countries. The importer's point of view is reflected in an interesting paper by a Hungarian economist.

ECONOMIC POLICY IN AN INTERDEPENDENT WORLD: ESSAYS IN WORLD ECONOMICS. By Richard N. Cooper. Cambridge: MIT Press, 1986, 340 pp. \$27.50.

These 11 papers, says the author, continue and develop the central theme of his 1968 classic on interdependence, written for the Council on Foreign Relations. They combine evidence of his experience in government, first in the Council of Economic Advisers and then as under secretary

of state for economic affairs, with "the judgmental use of abstract reasoning," which Professor Cooper finds "very satisfying" as a way to understand the world. His explanations of the circumstances in which each paper was written are very helpful to users of this excellent collection.

EXPLORING THE GLOBAL ECONOMY: EMERGING ISSUES IN TRADE AND INVESTMENT. By Raymond Vernon. Cambridge: Center for International Affairs, Harvard/Washington: University Press of America, 1985, 225 pp. \$19.25 (paper, \$8.75).

This is a valuable book because it brings together a dozen papers previously published individually by one of our best analysts. Four on state-owned enterprises are of special interest. The publishers are to be thanked for providing an index.

A DANCE ALONG THE PRECIPICE: THE POLITICAL AND ECONOMIC DIMENSIONS OF THE INTERNATIONAL DEBT PROBLEM. By William N. Eskridge, Jr. Lexington (Mass.): Lexington Books, 1985, 283 pp. \$30.00.

WORLD DEBT CRISIS: INTERNATIONAL LENDING ON TRIAL. Edited by Michael P. Claudon. Cambridge: Ballinger, 1986, 298 pp.

BANKS, PETRODOLLARS, AND SOVEREIGN DEBTORS. Edited by Penelope Hartland-Thunberg and Charles K. Ebinger. Lexington (Mass.): Lexington Books, 1986, 193 pp. \$27.00.

Each of these collections adds something interesting to the great flow of writing on the international debt crisis. The Eskridge volume, based on a conference at the University of Virginia Law School, tilts toward the concerns of lawyers but gains from bringing in participants on both sides of debt reschedulings and is concerned about the economics of "redemocratization" in Latin America. The conference at Middlebury that gave rise to the papers edited by Michael Claudon is strong on the problems of the international system and the place of international organizations. The authors of the third volume (from Georgetown) go well beyond the oil angle suggested by the title, both in the coverage of international issues and in case studies of Brazil, Mexico and Israel. All three books give special attention to the behavior of banks; none suggests that we can soon relax about the debt problem.

TOWARD THE YEAR 2000: WORLD BUSINESS LEADERS SPEAK OUT ON THE FUTURE OF FREE ENTERPRISE. Edited by Ruth Karen. New York: Morrow, 1985, 341 pp. \$18.95.

When they are summarized, the views of business people from around the world that are reported in this book are not particularly surprising: more competition, less government, increased efficiency in private operations, a global viewpoint. But in some of the separate interviews culled from the process of collection there are a number of interesting ideas, vigorously expressed.

The United States

Gaddis Smith

PUBLIC PHILOSOPHER: SELECTED LETTERS OF WALTER LIPPMANN. Edited by John Morton Blum. New York: Ticknor & Fields, 1985, 652 pp. \$29.95.

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The first letter in this well-edited collection selected from the Lippmann manuscripts at Yale is dated 1907 (when the author was 18); the last was written in December 1969. Many of the letters are part of Lippmann's lifelong conversations with the political and intellectual leaders of America, Britain and France; e.g., Woodrow Wilson, John Maynard Keynes, Jean Monnet, John Foster Dulles, Felix Frankfurter, and George Kennan. Here is an indispensable complement to Lippmann's published work and Ronald Steel's classic 1980 biography *Walter Lippmann and the American Century*. The book further illuminates Lippmann's disciplined mind, his insistence on the necessity of realistic and courageous leadership, his disdain for the shallow, the meretricious and the utopian.

REINHOLD NIEBUHR: A BIOGRAPHY. By Richard Wightman Fox. New York: Pantheon, 1985, 340 pp. \$19.95.

Theologian and activist Reinhold Niebuhr (1892–1971) attacked utopian idealism as dangerously inappropriate in foreign policy and called on Americans to understand the tragic necessity of using violence in pursuit of international justice. He had a greater influence on the American approach to the world in mid-twentieth century than any other philosopher. Here is an intellectual biography worthy of the man. Fox describes Niebuhr's awesome energy and commitment to using theological insights to shape public policy, but he does not flinch from honest criticism of Niebuhr's inconsistencies, oversimplifications, and a tendency to let the quantity of his writing and speaking get in the way of quality.

ESTRANGEMENT: AMERICA AND THE WORLD. Edited by Sanford J. Ungar. New York: Oxford, 1985, 347 pp. \$19.95. A Carnegie Endowment Book.

The twelve authors of the reflective essays in this volume are all well-known and accomplished commentators on the foibles of American foreign policy, e.g., Frances Fitzgerald, James Chace, Lester Thurow and Richard Ullman. They agree that the United States has become deeply estranged from most of the rest of the world during the past quarter-century, and they offer a variety of overlapping reasons: hubristic interventionism combined paradoxically with isolationist longings, a gross concentration on and exaggeration of the Soviet threat, a failure to understand different cultures. Although many of the arguments will be familiar to those who attend to foreign policy issues, this is a valuable primary source on the disillusioned liberalism of the mid-1980s.

THE AMERICAN APPROACH TO FOREIGN POLICY: A PRAGMATIC PERSPECTIVE. By Cecil V. Crabb, Jr. Washington: University Press of America, 1985, 102 pp. \$17.50 (paper, \$6.75).

Is American foreign policy dominated by rigid idealism and legalism, as George Kennan and other "realists" have long argued? Is it captive to special internal political and economic interests, as "revisionists" claim? Or, as Mr. Crabb argues, is pragmatism its most salient and, on balance, admirable characteristic? The book is an unpretentious and stimulating contribution to a never-ending debate.

AFTERMATH: TARNISHED OUTCOMES OF AMERICAN FOREIGN POLICY. By John D. Montgomery. Dover (Mass.): Auburn House, 1985, 200 pp. \$24.95.

This is a combination memoir and essay in social science analysis. In the author's long career he served as a consultant on the reconstruction of Hiroshima, the impact of American reforms on Japan, the use of small nuclear weapons, and land reform in Vietnam. He recounts his experience and comments, sadly and intelligently, on the limits of American influence over other nations, people and institutions. American objectives should be modest, he believes, and more effort should be made to anticipate consequences.

THE RISE AND FALL OF DÉTENTE. By Richard W. Stevenson. Urbana: University of Illinois Press, 1985, 238 pp. \$22.50.

A clear analysis of the unexceptionable thesis that détente is not a linear or evolutionary process in the relations between the two superpowers. Forces producing renewed tension have always, in the period studied (1953–1984), proved stronger than momentary impulses toward relaxation. The fact that the outlook in 1986 looks more hopeful than it did in 1984, when the book was written, could be seen as one more of the alterations of perception that have marked the years since 1953.

ANATOMY OF WAR: VIETNAM, THE UNITED STATES, AND THE MODERN HISTORICAL EXPERIENCE. By Gabriel Kolko. New York: Pantheon, 1986, 628 pp. \$25.00.

Although readers may be irritated by the author's wooden, quasi-Marxist rhetoric, his unrelieved criticism of the United States and his sympathy for the Vietnamese communists, this is an ambitious attempt to locate the Vietnam War in the broad sweep of twentieth-century history. The analysis of the Vietnamese communist side of the interaction is particularly illuminating as a corrective to those who write about the war entirely from American sources.

AN INTERNATIONAL HISTORY OF THE VIETNAM WAR: THE KENNEDY STRATEGY. By R. B. Smith. New York: St. Martin's, 1986, 429 pp. \$25.00.

This is the second volume in a meticulous history by a scholar of Southeast Asia at the University of London. Mr. Smith maintains admirable objectivity while giving full attention to both the broad international context and the specific behavior of the United States, South Vietnam, and the Vietnamese communists. He is more successful in explaining the ramifications of the war, although covering less than five years, than is Gabriel Kolko (above). The "Kennedy strategy" was counterinsurgency. It continued for a little more than a year into the Johnson Administration.

THE KENNEDY PRESIDENCY: SEVENTEEN INTIMATE PERSPECTIVES OF JOHN F. KENNEDY. Edited by Kenneth W. Thompson. Washington: University Press of America, 1985, 300 pp.

This volume, one of a series of "Portraits of American Presidents," consists of reminiscences by 17 of J.F.K.'s associates—including McGeorge and William Bundy, Dean Rusk, Arthur Schlesinger, Jr.—and transcripts of discussions held at the University of Virginia. The material, halfway

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between oral and scholarly, is a valuable source of information both on Kennedy and on the contributors.

WHISTLE STOPS: ADVENTURES IN PUBLIC LIFE. By Wilson W. Wyatt, Sr. Lexington: University Press of Kentucky, 1985, 235 pp. \$24.00.

The author recounts his experiences in the Democratic Party in Kentucky and in national public life. There is an interesting chapter on a special mission conducted by Mr. Wyatt at President Kennedy's request to resolve a feud between American oil companies and President Sukarno of Indonesia in 1963.

A WORLD OF SECRETS: THE USES AND LIMITS OF INTELLIGENCE. By Walter Laqueur. New York: Basic Books, 1985. 416 pp. \$21.95.

This calm, careful and informed book stands in refreshing contrast to much of the polemic, even hysteria, on the subject. The text and footnotes demonstrate how much information about the history, process and problems of intelligence gathering and evaluation is available to those who know where to look. Mr. Laqueur's central, well-documented conclusion is that "the function of intelligence is more modest than is generally believed. It is a prerequisite for an effective policy or strategy, but it can never be a substitute. . . . It has no access to revealed truths: the days of 'Magic' are over in more sense than one."

INTELLIGENCE REQUIREMENTS FOR THE 1980s: INTELLIGENCE AND POLICY. Edited by Roy Godson. Lexington (Mass.): Lexington Books, 1986, 189 pp. \$14.95.

INTELLIGENCE REQUIREMENTS FOR THE 1980s: DOMESTIC INTELLIGENCE. Edited by Roy Godson. Lexington (Mass.): Lexington Books, 1986, 290 pp. \$14.95.

Published for the National Strategy Information Center, these two volumes complete a seven-volume symposium, begun in 1979, on almost all aspects of intelligence in relation to American national security. Here, as in the previous volumes, the contributors share the belief that more effective intelligence and counterintelligence are indispensable if we are to survive the hostile purposes of our enemies. They have little patience with those who charge that American intelligence activities are themselves a significant threat to democratic values.

THE ULTRA AMERICANS: THE U.S. ROLE IN BREAKING THE NAZI CODES. By Thomas Parrish. New York: Stein & Day, 1985, 352 pp. \$19.95.

Although the style is breezy to the point of frivolousness, the book adds details about the American team's contribution to British code-breaking operations during World War II, an extraordinarily popular subject.

BETWEEN WASHINGTON AND JERUSALEM: A REPORTER'S NOTEBOOK. By Wolf Blitzer. New York: Oxford, 1985, 288 pp. \$15.95.

The author is the well-known Washington correspondent of *The Jerusalem Post*. This calm, informative book is a series of reports on aspects of Israeli-American relations: the bureaucracies of both nations, American Jews in politics, Congress, the CIA and the Mossad, the military, et al.

*The Western Hemisphere**Robert D. Crassweller*

WITH THE CONTRAS: A REPORTER IN THE WILDS OF NICARAGUA. By Christopher Dickey. New York: Simon & Schuster, 1986, 327 pp. \$18.95.

Based on long research and a unique immersion in the jungle warfare of Nicaragua, the author, an American journalist, presents a firsthand account of the contras and their fight to the death with the Sandinistas. It is all here, the plotting, the foreign backers, the CIA, the blood and grit and dirt, the terror, the flamboyance and the tragedy. A final proof of realism: nothing in the account, whose color and immediacy are equaled by no other, suggests any viable route to a peaceful solution.

MILITARY RULE IN CHILE: DICTATORSHIP AND OPPOSITIONS. Edited by J. Samuel Valenzuela and Arturo Valenzuela. Baltimore: Johns Hopkins University Press, 1986, 331 pp. \$35.00.

Nine detailed and scholarly essays by Chilean and American academics examine all aspects of the Pinochet regime. The papers originated in a Woodrow Wilson Center workshop in 1980 and for the most part bring their stories up to the end of 1982, antedating the 1983 political crisis. The general prognosis is negative: "Only an escalation of violence seems in store."

STATE AND OPPOSITION IN MILITARY BRAZIL. By Maria Helena Moreira Alves. Austin: University of Texas Press, 1985, 352 pp. \$22.50.

Extensive interviews and thorough documentary research undergird this examination of the national security state constructed in Brazil since 1964, not as the product of any blueprint but rather out of a "dialectical relationship" between the forces in power and the organized opposition. The analysis concludes with the *abertura* in 1983. Well done.

IMPULSE TO REVOLUTION IN LATIN AMERICA. By Jeffrey W. Barrett. New York: Praeger, 1985, 357 pp. \$37.95.

A sound description and analysis of the economic, cultural and political factors that retard growth in Latin America, and the nature of the region's reaction. A comment on nationalistic anti-imperialism: "The mere existence of a powerful, prosperous and creative West threatened the self-esteem of reactive nationalists; and so when they protested against the West, they were also protesting its superior position in the hierarchy of civilizations."

LATIN AMERICAN VIEWS OF U.S. POLICY. Edited by Robert Wesson and Heraldo Munoz. New York: Praeger, 1986, 153 pp. \$33.95.

It is reassuring to find Latin American experts writing about U.S. policy without passion or extremism. In seven essays covering current administration policy, trade and finance, the inter-American system, and several countries, they do reflect "a general wariness of the United States and its purposes, and dissatisfaction with the basically unequal relations in the hemisphere."

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THE LATIN AMERICAN POLICIES OF U.S. ALLIES. Edited by William Perry and Peter Wehner. New York: Praeger, 1985, 185 pp. \$29.95. EUROPEAN INTERESTS IN LATIN AMERICA. By Esperanza Durán. London: Routledge & Kegan Paul/The Royal Institute of International Affairs, 1985, 110 pp. £5.95 (paper).

The first, and the longer, of these accounts describes the Latin American interests and policies of five European countries and Canada, Japan and Israel. The second volume, published by Chatham House, concentrates on the involvement of England, France and West Germany. Both works agree that the leading European role by far is that of West Germany. The Chatham House study notes the "strikingly limited" interest of Europe generally in Latin America, due perhaps to concentration upon former colonial areas, and the decline in the Latin American proportion of total world exports (from 12 percent in 1950 to six percent in 1981).

THE TERRORIST CLASSIC: MANUAL OF THE URBAN GUERRILLA. By Carlos Marighella. Chapel Hill (N.C.): Documentary Publications, 1985, 110 pp. \$19.95.

Marighella, the "father of modern terrorism," died in São Paulo in 1969 in a hail of bullets under circumstances still rather opaque. This small volume presents a brief description of his life and death, together with a new translation of his manual, which has become an operational "bible" for terrorists around the world.

Western Europe

Fritz Stern

THE HOLOCAUST: A HISTORY OF THE JEWS OF EUROPE DURING THE SECOND WORLD WAR. By Martin Gilbert. New York: Holt, Rinehart and Winston, 1986, 959 pp. \$19.95.

A monument to humanity as it was caught in the terror of leering, relentless inhumanity. Each scene is palpable in its horror, each moment records the suffering of the victim and the sadism of the tormentor (German or East European). Here are the voices of the near-dead or of those closest to them, a record of absolute defenselessness, yet with instances of courage, defiance, decency and betrayal. This is not the story of the cold-blooded machine of destruction but of immediate, individual murder, of the killing of children, of such terror and degradation that even guard dogs cringed to do what SS men carried out. Here are the voices of the victims, culled from many available sources, but assembled as never before in a chorus of biblical pain.

Gilbert, the distinguished British historian, has created this monument, but not a history—the title notwithstanding. He writes with scant attention to existing literature or deeper questions. He contends, for example, that the worst occurred when "Germany was supreme. And with her supremacy came the thirst for Jewish blood." But did not the systematic murder coincide with Germany's defeat before Moscow? Gilbert says almost nothing about the complicity or knowledge of the German army, though he refers to the murder of Soviet prisoners of war. The early chapters try to sketch the historical background but are marred by factual errors.

STUDENTS AND NATIONAL SOCIALISM IN GERMANY. By Geoffrey J. Giles. Princeton: Princeton University Press, 1985, 360 pp. \$47.50.

A useful account of Nazi student organizations, focused primarily on the University of Hamburg, where records happened to survive. Nazi student leaders were successful before Hitler's assumption of power, less so later, when Nazi contempt for learning and for the universities prescribed no clear goal. The new regime encountered careerism and complicity without conviction, while student organizations faced growing apathy. An addition to our slowly growing knowledge of academic life in the Third Reich, especially during the war years.

WALTER RATHENAU: NOTES AND DIARIES 1907–1922. Edited by Hartmut Pogge von Strandmann. New York: Clarendon Press/Oxford, 1985, 346 pp. \$72.00.

Hitherto untranslated texts of one of Germany's most intriguing and influential figures. On intimate terms with the several elites, in July 1917 he told Ludendorff that the English way of telling people the gravity of the situation was superior: "We had emasculated opinion by three years of deception: at least thirty illusions had come into being during that time and were completely believed." These deceptions paved the way for later disasters.

THE UNWANTED: EUROPEAN REFUGEES IN THE TWENTIETH CENTURY. By Michael R. Marrus. New York: Oxford, 1985, 371 pp. \$24.95.

A tale of the many millions who left native grounds because of persecution, poverty and war beginning with the East European migrations of the 1880s and ending with the forced migrations after World War II. Marrus, who has written excellent books on French Jewry, focuses on the refugees as continuing challenges to other European states, to aid agencies and to oppositional groups that blocked refugees, a policy notoriously reversed by Vichy. For Europe today the problem has receded, but amidst unemployment and economic difficulties, Europeans are once again turning protectionist, anxious to keep out foreign workers and competitors.

THE PRIVILEGED PARTNERSHIP: FRANCO-GERMAN RELATIONS IN THE EUROPEAN COMMUNITY, 1969–1984. By Haig Simonian. New York: Clarendon Press/Oxford, 1985, 407 pp. \$34.50.

A study of the close ties between Bonn and Paris that made a strong Europe possible, which in turn depended on the closest collaboration between two countries that still had different interests and psychological concerns. Concentrating on the years of Brandt's and Pompidou's cooperation, 1969–74, Simonian sketches the later years as well. Pompidou was nervous about Ostpolitik, and French suspicions of the national ambitions of the Federal Republic persist. Collaboration became a trained act, a recognition of necessity that turned into a habit. The book is a competent, if somewhat repetitive, reconstruction of a central force in postwar politics. As the author notes, French-German relations confirm Jean Monnet's stricture: "Nothing is possible without men and nothing is durable without institutions."

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STALIN AND THE EUROPEAN COMMUNISTS. By Paolo Spriano. London: Verso, 1985, 320 pp. (New York: Schocken Books, distributor, \$25.00).

A leading Italian historian, drawing heavily on the Italian material, describes the turns and twists of Stalin's policies vis-à-vis a once strong communist movement in Western Europe. A short, somewhat superficial survey of Stalin's policies and motives, with a grasp of the pathological components and the often self-defeating results. There are many memorable quotes from that period which began and ended with great purges, first in the U.S.S.R. and then, toward the end of Stalin's time, in Eastern Europe.

HER MAJESTY'S SECRET SERVICE: THE MAKING OF THE BRITISH INTELLIGENCE COMMUNITY. By Christopher Andrew. New York: Viking, 1986, 619 pp. \$25.00.

Enthralling and enticing, a great work for amateur generalists and for historians, a triumph of the master-sleuth after great and petty sleuths, a search not deterred by senseless government secrecy defended "on . . . dotty grounds." The story begins with Victorian Britain, fastens on intercepts during both wars and the interwar period, insists that historians cannot write proper history without understanding the mutual eavesdropping that went on. The hero of intelligence was Churchill, who early on understood and revelled in Ultra; the great masters were the top people at Bletchley. Andrews takes the story right down to the Falkland Islands, grappling with the rival claims of secrecy versus the need for a democracy to be informed. He has written a splendidly readable, indispensable work on one of Britain's greatest defenses: her intelligence community, warts, failures and all.

THE FRINGES OF POWER: 10 DOWNING STREET DIARIES, 1939-1955. By John Colville. New York: Norton, 1985, 429 pp. \$25.00.

Luck, breeding and talent landed Colville at No. 10 in 1939, first serving under Chamberlain, then under Churchill in and out of London, except between August 1941 and December 1943 when at his own insistence he served with a fighter squadron of the RAF. This is a close, splendid picture of Churchill, whose ascent to prime minister he thought a "terrible risk," and whom he came to see as imperious, impossible, fiercely inconsiderate—and "innately lovable and generous." There are valuable glimpses for the historian: Churchill's leadership, the awe that Germany's soldiery inspired, the uncertainty about what to do with postwar Germany. (At Quebec, Colville realized that the prime minister was to talk to FDR about zones of occupation without having read the briefs: "I volunteered to read them to him in his bath. This bizarre procedure was accepted, but the difficulties were accentuated by his inclination to submerge himself entirely from time to time and thus become deaf to certain passages.") We learn about Churchill's disdain for Eisenhower as President; we learn that Churchill's speeches were always original, his letters mostly composed by his flock. Elegant Colville writes of upper-class English life, the endless round of lunches and dinners at countless clubs (on a troopship to South Africa, he discovered the bitterness of rank division); the social instinct seems greater than the political. Even from the fringes, one could have wished for a still richer, more searching diary.

*The Soviet Union and Eastern Europe**John C. Campbell*

THE BIRTH OF THE PROPAGANDA STATE: SOVIET METHODS OF MASS MOBILIZATION, 1917-1929. By Peter Kenez. New York: Cambridge University Press, 1985, 308 pp. \$39.50 (paper, \$12.95).

This admirable monograph shows in interesting detail how Lenin and his associates and successors invented, developed and applied the techniques of management and use of information that have since become standard practice in the U.S.S.R. and other totalitarian states. They applied a combination of censorship and control, on the one hand, and agitprop on the other, to the press, the educational system, the film industry, and to the activities of the mass organizations they had formed to mobilize popular support. As the author notes, there is no way to accurately measure their success, no Gallup poll to show what percentage of the populace was influenced or converted. But it is significant that the end to which this effort was directed, the survival and consolidation of the regime, was achieved, and that these methods continue to be effective.

THE FIRST SOCIALIST SOCIETY: A HISTORY OF THE SOVIET UNION FROM WITHIN. By Geoffrey Hosking. Cambridge: Harvard University Press, 1985, 597 pp. \$29.50.

A British historian's well-paced, readable survey in which Soviet developments are covered "from within" in two senses: first, the coverage is of domestic affairs, not foreign relations; and second, the author attempts, with moderate success but without breaking any new ground, to convey the changes in society, in the lot of the people (peasants, city dwellers, soldiers, bureaucrats, intelligentsia), as well as the politics and decisions at the top. Written for the student and general reader and dispensing with the scholarly apparatus, the book is solidly based on Soviet source material and the recent research of Western scholars.

SOVIET NATIONALITIES IN STRATEGIC PERSPECTIVE. Edited by S. Enders Wimbush. New York: St. Martin's, 1985, 253 pp. \$27.95.

Western experts on the U.S.S.R.'s nationalities problem are relatively few, and a goodly number of them appear as contributors to this well-edited book. The scope is deliberately limited to the "strategic perspective": how the problem affects the stability, continuity and international position of the Soviet empire. The book is especially good in treating the role of the Muslim peoples on both sides of the border (Hans Braker provides a first-rate chapter on "nationality dynamics" in Sino-Soviet relations) and less impressive in covering the dynamics affecting the peoples of Eastern Europe and the western territories of the U.S.S.R.

SOVIET MILITARY INTERVENTIONS SINCE 1945. By Alex P. Schmid, with case studies by Ellen Berends. New Brunswick (N.J.): Transaction Books, 1985, 223 pp. \$29.95.

Two Dutch scholars identify and describe 44 interventions, ten of them in separate though quite brief case studies, classifying them as intrabloc (mainly action to establish or restore subservient regimes in Eastern Europe), interbloc (cold war moves in Berlin, Korea, Cuba and elsewhere), and extrabloc (adventures in the Third World). It is hardly a work of great

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originality, but it is well done and unwavering in the search for truth on both sides of the cold war. The sober conclusion, that no end to Soviet intervention and expansionist policies is in sight, is amply justified by the historical record.

THE SOVIET INVASION OF AFGHANISTAN: A STUDY IN THE USE OF FORCE IN SOVIET FOREIGN POLICY. By Joseph J. Collins. Lexington (Mass.): Lexington Books, 1986, 195 pp. \$24.00.

This book goes further than any so far published in probing Soviet policies in relation to Afghanistan. At this point, six years or so after the key decisions (on the coup of April 1978 and the military action of December 1979, for example), the author is in a good position to assess Soviet motives and conduct, to give a critique of the interpretations of others—both of the “grand design” and the “defensive reaction” schools, as well as others—and to reach some well thought out conclusions of his own. He also gives some professional comment on the actual military operations.

THE KGB AND SOVIET DISINFORMATION: AN INSIDER'S VIEW. By Ladislav Bittman. Washington: Pergamon-Brassey's, 1985, 226 pp.

An exposé by a former Czechoslovak intelligence officer of Soviet and East European covert operations against the West. Going well beyond the author's personal experience—he left Czechoslovakia in 1968—the book ranges over the entire field (forgeries, black propaganda, front organizations, recruitment of agents, penetration of Western institutions, terrorism, assassinations, aid to revolutionaries, and so on), with many illustrative cases and items of interest, but also with a tendency to write the KGB's role as larger than life.

NATIONS UNDER DURESS: THE BALTIC STATES. By I. Joseph Vizulis. Millwood (N.Y.): Associated Faculty Press, 1985, 209 pp. \$22.50.

A brief but useful account of the fate of Estonia, Latvia and Lithuania, extinguished as independent nations during World War II, focusing on their international status rather than their domestic situation. The author's main concern is the right to independence denied to these peoples by Germany and Russia and insufficiently supported by the West.

KOR: A HISTORY OF THE WORKERS' DEFENSE COMMITTEE IN POLAND, 1976–1981. By Jan Józef Lipski. Berkeley: University of California Press, 1985, 561 pp. \$39.95.

In a brilliant display of what he calls historical journalism, Lipski applies his professional historical method, and also draws on his own personal involvement, to produce an invaluable record of the activities of the organization of writers and intellectuals which had a unique role in expanding the areas of freedom in Gierek's Poland and preparing the way for Solidarity. He goes into great detail and furnishes extensive documentation on the purposes and work of KOR, its building of ties with workers, students, peasants and representatives of the church, and its relations with the regime, including violent encounters with the security apparatus. KOR dissolved itself in 1981, but its leaders such as Kuron, Michnik and Lipski himself remain active, and persecuted, in Poland.

PARTY PLURALISM OR MONISM: SOCIAL MOVEMENTS AND THE POLITICAL SYSTEM IN YUGOSLAVIA, 1944–1949. By Vojislav Kostunica and Kosta Cavoški. Boulder (Colo.): East European Monographs, 1985, 257 pp. (New York: Columbia University Press, distributor, \$25.00).

During World War II the Yugoslav communists publicly pledged a system of political democracy after victory, but the early postwar years saw the gradual elimination of all parties and leaders, those within the "People's Front" as well as those outside, who were in any way out of line with the Communist Party. This study is a clinical exposure of that process, illustrated largely by the pronouncements of Tito and his colleagues. It is remarkable that such a critique of the monolithic party and of official history and orthodox doctrine was permitted to be published in the original Serbo-Croatian version in Belgrade in 1983. Although it was later banned and withdrawn, it should continue to have echoes in the continuing discussion on the past and future of Yugoslavia.

YUGOSLAVIA IN THE 1980s. Edited by Pedro Ramet. Boulder (Colo.): Westview Press, 1985, 354 pp. \$27.00.

Yugoslavia since Tito's death is going through a period of great uncertainty, even crisis, both in its economy and in its political system, to which old formulas of one-party guidance, federalism, market socialism and socialistic self-management do not provide answers. The contributors to this book describe the problems and dilemmas with professional skill and objectivity, and not without sympathy. The individual conclusions add up to a bleak present and a very dubious future for the country, with a system that is in disarray or decay and perhaps incapable of reform. This is not a book for the ages, but it is the best one available for understanding the complexities of the Yugoslav situation as it unfolds.

The Middle East

John C. Campbell

THE SIEGE: THE SAGA OF ISRAEL AND ZIONISM. By Conor Cruise O'Brien. New York: Simon & Schuster, 1986, 766 pp. \$24.95.

Diplomat, politician, editor and historian, Conor Cruise O'Brien had the versatility, talent and dedication for this book he felt he had to write on the Jewish destiny in Europe and in Palestine. The connection between the two locales is at the heart of the book's message, for Zionism and Israel, the author points out, were creations not only of the Jews but also of "the rest of us." He writes as a friend of Israel, but not without sympathy for the Palestine Arabs, whom he sees as victims of history and of their own leaders. It is a long road from the Dreyfus case to the siege of Beirut and this book takes it year by year and sometimes day by day. As the author is never sparing of words, opinions and digressions, the "general reader" for whom he purports to write may not make it to the end, but the writing has a sprightly touch, and those who persist will be rewarded.

ISRAEL: THE PARTITIONED STATE. By Amos Perlmutter. New York: Scribner, 1985, 398 pp. \$19.95.

Amos Perlmutter's history of Zionism and Israel is not a standard chronological narrative; it is selective and episodic, skipping forward and

backward in time. The book is centered on two generations of leaders—from Weizmann, Jabotinsky and Ben-Gurion to Begin, Dayan and Peres—in the light of the continuing issues such as statehood, borders, immigration and settlement, that have shaped the achievements of this people which in many respects has not yet coalesced as a nation and a state. Perlmutter knows the political literature and has talked and worked with many of the principal actors. He writes, therefore, with considerable authority. This is, however, history seen from the viewpoint of Zionism and Israel and is loaded with the author's personal opinions. He writes with the same assurance, but with less authority, on British, American and Arab policies.

THE FUTURE OF AMERICAN-ISRAELI RELATIONS: A PARTING OF THE WAYS? By James Lee Ray. Lexington: University Press of Kentucky, 1985, 157 pp. \$16.00.

The author promises a novel approach, the application of social science research to the difficult policy problems confronting the United States in dealing with the Arab-Israeli conflict. His treatment both of the present dilemmas and the historical background is, however, quite conventional, and also eminently reasonable. His main point is that Israel, in its own interest and in the interest of peace, should give up the occupied territories, and that America should use its influence, including decisions on military and economic aid, to help Israel see the light.

UNDER SIEGE: P.L.O. DECISIONMAKING DURING THE 1982 WAR. By Rashid Khalidi. New York: Columbia University Press, 1985, 241 pp. \$22.50.

We have had several reliable accounts of Israel's war in Lebanon from the Israeli side. Rashid Khalidi, an American scholar of Palestinian origin, now provides a first-rate study, based on PLO documents and interviews, from the Palestinian side. He does not neglect military events, but the main focus is on the key political decisions such as how long to keep on fighting, whether to leave Beirut, and under what conditions. Much new and interesting information here on relations between the PLO and the Lebanese, on the French role, on American assurances for the safety of the refugee camps (which proved worthless), and on the PLO's bitterness at being let down by fellow Arabs, particularly Saudi Arabia and Syria.

SUPERPOWER INVOLVEMENT IN THE MIDDLE EAST. Edited by Paul Marantz and Blema S. Steinberg. Boulder (Colo.): Westview Press, 1985, 301 pp. \$21.50 (paper).

While the subject is familiar, the treatment of it in most of these papers is unorthodox and stimulating, whether one agrees with it or not. Those authors who discuss U.S. policy find much of it based on false assumptions and therefore doomed to fail. The contributors are Canadian, American and Israeli scholars; none is from the Arab world, and Palestinian and Arab viewpoints get something less than due consideration.

THE SPIRIT OF ALLAH: KHOMEINI AND THE ISLAMIC REVOLUTION. By Amir Taheri. Washington: Adler & Adler, 1986, 334 pp. \$18.95.

A biography of Khomeini, definitely not an authorized one, which serves at the same time as a history of the struggle for political power in Iran over

the past few decades. Taheri, a prominent editor in Teheran before the revolution, paints a superb portrait of the ayatollah—devout man of God and consummate politician, ambitious, uncompromising, vengeful, single-minded in the never-ending battle against “Satan” in whatever guise he appears to Khomeini.

THE IRANIAN REVOLUTION: THANATOS ON A NATIONAL SCALE. By Gholam R. Afkhami. Washington: Middle East Institute, 1985, 258 pp. \$24.95.

Why and how the shah's rule collapsed has been explored by various authors, Iranians and outsiders, but many questions remain. Afkhami, who was an Iranian government official and political scientist before the revolution, has some strong and well-conceived ideas of his own: in the main, he finds that the shah failed because the political structure had not adapted to the economic and social change of the past 30 years; Khomeini, with a well-timed strategy and helped by the negligence of others, was there to pick up the pieces. Afkhami analyzes the roles of the shah, the military, the middle class, the clergy, the United States and other elements in the events leading up to the revolution. As for the Khomeini regime, which is covered summarily but decisively, the author equates it with “total destruction” and finds it wholly alien to the reality of contemporary Iran.

IRAN SINCE THE REVOLUTION. Edited by Barry M. Rosen. Boulder (Colo.): Social Science Monographs, 1985, 187 pp. (New York: Columbia University Press, distributor, \$20.00).

A book which should help to dispel some of the prevalent confusion concerning Iran under the regime of Khomeini and the mullahs. As a collection of conference papers it suffers from a lack of focus, but the individual contributions are uniformly good. Those on internal affairs are less meaty than those on the international aspects—there is little on the economy, for example—but there are compensating strengths in the treatment of the ideological factors which have given the revolution and the regime their driving force.

Asia and the Pacific

Donald S. Zagoria

CHINA: LONG-TERM DEVELOPMENT ISSUES AND OPTIONS. Baltimore: Johns Hopkins University Press, 182 pp. 1985, \$29.95 (paper, \$14.95). A World Bank Country Economic Report.

This World Bank report on the Chinese economy is based on the findings of a mission which visited China twice in early 1984 for a period of nine weeks. It is likely to have a considerable impact on the Chinese leadership. It is probably the most detailed and thorough account of the Chinese economy, and Chinese economic reforms, yet published. The conclusion is cautiously optimistic, holding that there is a good chance that China will attain its long-term development objectives. For those who seek more than the superficial accounts of China's new course which fill the Western media, and who are prepared to take the time to digest all the details, this report will be indispensable.

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MODERNIZING CHINA: POST-MAO REFORM AND DEVELOPMENT. Edited by A. Doak Barnett and Ralph N. Clough. Boulder (Colo.): Westview Press, 1986, 136 pp. \$23.85 (paper, \$12.85).

This collection of articles on China's modernization strategy is based on a series of lectures delivered at the Johns Hopkins School of Advanced Studies during the 1984-85 academic year by a group of prominent American China specialists. It is short and extremely readable. The overall picture that emerges, say the editors, is one of a very far-reaching, even historic transformation that may now be "altering the nature of the political and economic system [in China] and of society at large."

CHINESE FOREIGN POLICY: DEVELOPMENTS AFTER MAO. By Robert G. Sutter. New York: Praeger, 1986, 240 pp.

This is one of the first overviews of Chinese foreign policy since the death of Mao in 1976. Sutter concludes that China has worked hard to ensure that its strategic environment, threatened mainly by the Soviet Union, remains stable so that it can focus on its economic modernization. Chinese leaders see cooperation with the United States as especially important in deterring the U.S.S.R. and aggravating its strategic vulnerabilities. At the same time, China uses exchanges and dialogue with the Soviet Union to help manage the Soviet danger.

MODERN CHINA AND ITS REVOLUTIONARY PROCESS: RECURRENT CHALLENGES TO THE TRADITIONAL ORDER, 1850-1920. By Robert A. Scalapino and George T. Yu. Berkeley: University of California Press, 1986, 814 pp. \$65.00.

Part one of a projected three-part volume on the background and development of the Chinese communist movement, this prodigious work of scholarship covers the period from the Taiping Rebellion in the nineteenth century to the emergence of the Communist Party in 1920-21. It is likely to become the standard source on the origins of the Chinese revolutionary process.

SOVIET-AMERICAN HORIZONS ON THE PACIFIC. Edited by John J. Stephan and V. P. Chichkanov. Honolulu: University of Hawaii Press, 1986, 175 pp. \$18.00.

This is a collaborative effort by Soviet and American scholars designed to survey the prospects for increased economic and scientific cooperation between the Soviet Far East and the American Far West. Some indication of the difficulties can be gleaned from the American editor's statement in the introduction: "During the review process of the Russian-language edition, a Soviet referee suggested adding a critical commentary to the chapters written by American authors. In the interest of maintaining reciprocity, the American authors expressed hope that this process would not be implemented. . . ." Maintaining scholarly cooperation with a country that insists on "correcting" the views of foreign scholars before they are published in the U.S.S.R. will indeed be difficult. In spite of this and other hurdles, this is a praiseworthy effort to increase mutual understanding.

THE AMERICAN OCCUPATION OF JAPAN: THE ORIGINS OF THE COLD WAR IN ASIA. By Michael Schaller. New York: Oxford, 1985, 351 pp. \$22.50.

This is a careful historian's account of the origins of the cold war in Asia with a particular focus on the U.S. occupation of Japan. It shows how the emerging U.S.-Soviet confrontation, the Chinese communist victory in 1949, and especially the Korean War combined to transform the image of Japan in the minds of American leaders and to produce a coherent Asian strategy based on containing communism. The Korean War was the great turning point. It deepened U.S. involvement in East and Southeast Asia, helped revive Japanese industry by creating a boom, convinced the Japanese to abandon the illusion of neutrality in the cold war, and led the United States to sign a generous peace treaty and security pact with its former adversary.

RELUCTANT CRUSADE: AMERICAN FOREIGN POLICY IN KOREA, 1941-1950. By James Irving Matray. Honolulu: University of Hawaii Press, 1985, 351 pp. \$30.00.

This is an outstanding piece of scholarship by a promising young historian. Based on declassified U.S. government documents, Matray shows how American policy in Korea evolved from indifference to qualified commitment to military intervention. It is far superior to earlier works on the subject such as Bruce Cumings' *The Origins of the Korean War*. Matray convincingly demonstrates that Cumings exaggerated the aggressiveness of Roosevelt's postwar intentions in Asia, wrongly attributed to Roosevelt a desire to dominate Korea, and greatly overstated the negative aspects of U.S. occupation policy in South Korea.

KOREA AND INDONESIA IN THE YEAR 2000. Edited by Jae Kyu Park and Jusuf Wanandi. Boulder (Colo.): Westview Press, 1985, 201 pp. \$22.50.

Scholars from South Korea and Indonesia conclude that there is a growing linkage between Northeast and Southeast Asian security and a common interest between their two countries in pursuing a peaceful regional environment and increased trade. A prominent South Korean scholar, Sang Woo Rhee, has some interesting observations on the preconditions for the growth of East Asian regional cooperation.

Africa

Jennifer Seymour Whitaker

AFRICAN CRISIS AREAS AND U.S. FOREIGN POLICY. Edited by Gerald J. Bender, James S. Coleman and Richard L. Sklar. Berkeley: University of California Press, 1985, 373 pp. \$40.00 (paper, \$9.95).

Once again "regionalists" feel impelled to make the case against excessive anti-Sovietism in U.S. policy toward Third World areas and in favor of careful calculation of elements "on the ground" in each crisis situation. In this volume a number of experts scrutinize African trouble spots and recommend policies for promoting U.S. interests based on sensitive analysis of local situations. Globalists also have a chance to argue their case, but all in all the book provides a salutary antidote to the increasingly fashionable

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anti-communist strategies currently being applied to the most obscure of the globe's conflicts.

THE FUTURE OF REGIONALISM IN AFRICA. Edited by Ralph I. Onwuka and Amadu Sesay. New York: St. Martin's, 1985, 272 pp. \$29.95.

African, British and American political scientists examine the evolution of the main African regional organizations and assay the implications of their well-nigh universal failure to foster economic ties among their members. They suggest, first, that cooperation on projects—particularly infrastructure—may offer more possibilities than common markets, and, second, that awareness of the continent's grave economic situation may sharpen the understanding of African leaders that regional ties are a *sine qua non* of self-reliant development.

SOUTH AFRICA AND ITS NEIGHBORS: REGIONAL SECURITY AND SELF-INTEREST. By Robert I. Rotberg, Henry S. Bienen, Robert Legvold and Gavin G. Maasdorp. Lexington (Mass.): Lexington Books, 1985, 174 pp. \$20.00. A World Peace Foundation Book.

Taking stock after the March 1984 Nkomati Accord, Rotberg argues that "constructive engagement" has freed South Africa of any remaining restraints on its regional destabilization policy and of any real pressure to reach a settlement on Namibia. The authors look beyond the current situation of conflict and discuss the likelihood that, even under a majority rule government, South Africa's economic preponderance would spur the SADCC (Southern African Development Coordination Conference) states to try to build up their economic independence.

CAPITALISM AND APARTHEID: SOUTH AFRICA, 1910–1984. By Merle Lipton. Totowa (N.J.): Rowman & Allanheld, 1985, 448 pp. \$19.95.

This study makes a tentative case for the viability of a reformist evolution in South Africa in view of what its author describes as a transition from the predominance in the economy of white labor and agriculture to that of black labor and urban capital. Looking at changes in South Africa from 1978 to 1984, the author sees economic interests prevailing, even when they conflict with ethnic alliances. She qualifies her optimism heavily, however, acknowledging, almost in her last words, that perceived threats to security override all other interests.

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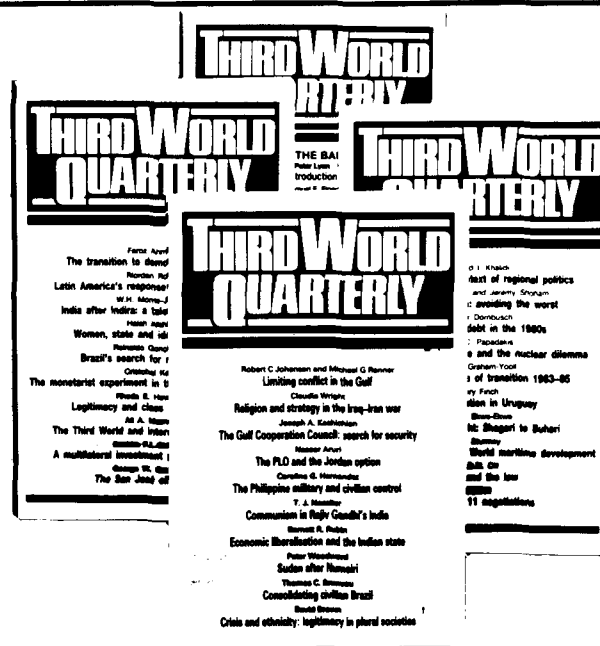


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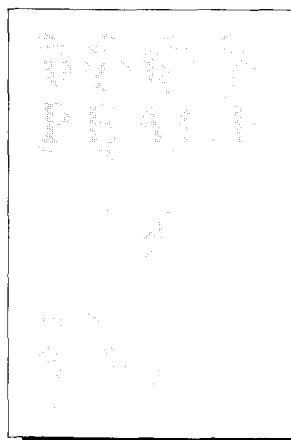


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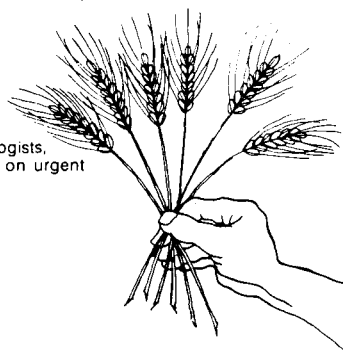
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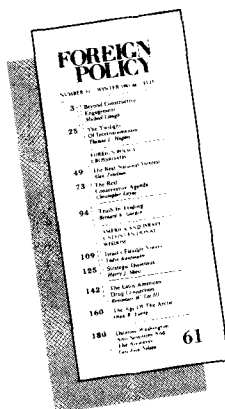
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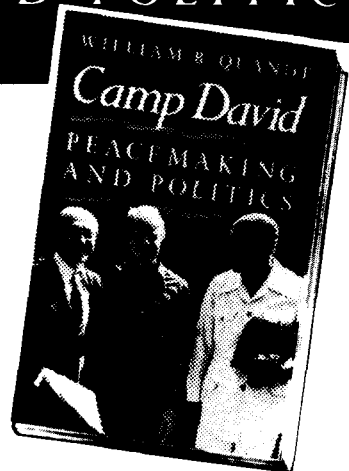
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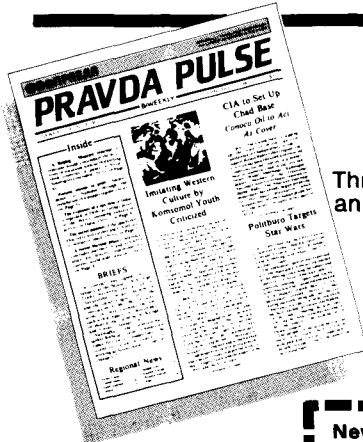
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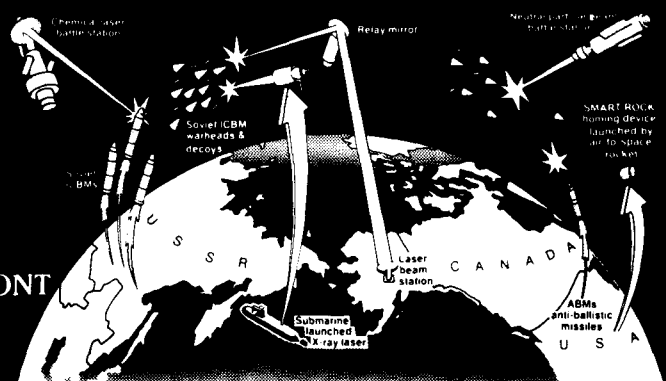
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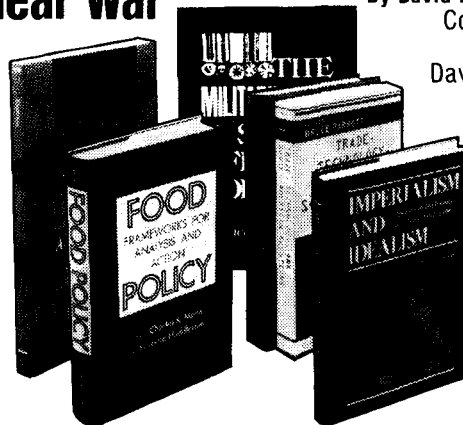
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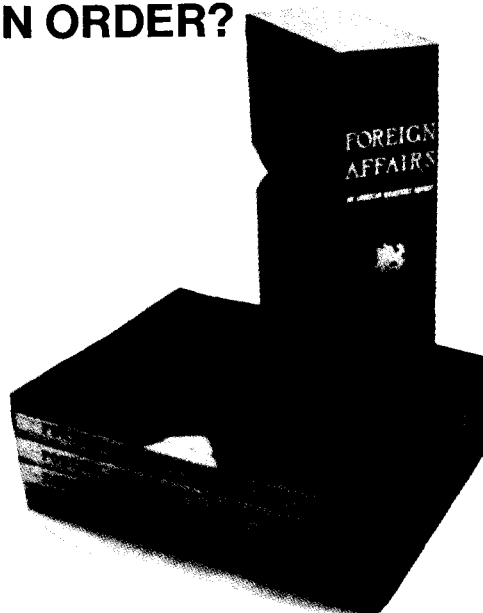
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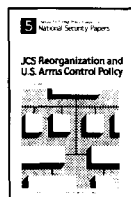
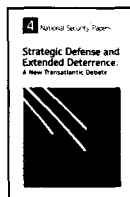
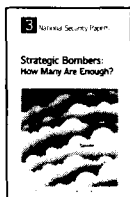
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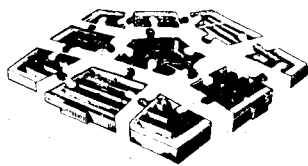
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